LIVE VIRTUAL COMMITTEE MEETING

TO VIEW VIA WEB

TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing PublicComment@lacera.com. If you would like to remain anonymous at the meeting without stating your name, please let us know.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

AGENDA

A REGULAR MEETING OF THE AUDIT COMMITTEE

AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., THURSDAY, OCTOBER 21, 2021

This meeting will be conducted by the Audit Committee by teleconference
under California Government Code Section 54953(e).

Any person may view the meeting online at
http://lacera.com/leadership/board-meetings

*The Committee may take action on any item on the agenda
and agenda items may be taken out of order.*

2021 AUDIT COMMITTEE MEMBERS
    Joseph Kelly, Chair
    Shawn R. Kehoe, Vice Chair
    Vivian H. Gray, Secretary
    Alan J. Bernstein
    Keith Knox
    Ronald A. Okum
    Gina V. Sanchez

AUDIT COMMITTEE CONSULTANT
    Robert H. Griffin

I.   CALL TO ORDER

II. APPROVAL OF MINUTES

    A. Approval of the Minutes of the Regular Audit Committee Meeting of
        August 26, 2021

III. PUBLIC COMMENT

(Written Public Comment - You may submit written public comments by email to PublicComment@lacera.com. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

Verbal Public Comment - You may also request to address the Committee. A request to speak must be submitted via email to PublicComment@lacera.com. We will contact you with information and instructions as to how to access the meeting as a speaker. If you would like to remain anonymous at the meeting without stating your name, please let us know.)

IV. CONSENT ITEMS

A. Recommendation as submitted by Steven P. Rice, Chief Counsel: That the Audit Committee approves that, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Board of Retirement consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Board and its Committees to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Board and its Committees shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute. (Memo dated October 14, 2021)

V. NON-CONSENT ITEMS

A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor and Christina Logan, Principal Internal Auditor: That the Audit Committee approve the engagement of IIA Quality Services, LLC to conduct the External Quality Assessment of the Internal Audit Division. (Memo dated October 13, 2021)

B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha Collins, Principal Internal Auditor, Christina Logan, Principal Internal Auditor, and Kathryn Ton, Senior Internal Auditor: That the Audit Committee approve engagement of Eide Bailly, LLC to perform an external review of the Human Resources Division's recruiting process (Memo dated October 14, 2021)

VI. REPORTS

   A. Recommendation Follow-Up
       Richard P. Bendall, Chief Audit Executive
       Christina Logan, Principal Internal Auditor
       (Memo dated October 13, 2021)

   B. Recommendation Follow-Up Sensitive Information Technology Areas
       Richard P. Bendall, Chief Audit Executive
       Christina Logan, Principal Internal Auditor
       Gabriel Tafoya, Senior Internal Auditor
       (Memo dated October 13, 2021)

   C. Recommendation Follow-Up KPMG's External Quality Assessment (EQA)
       Richard P. Bendall, Chief Audit Executive
       Christina Logan, Principal Internal Auditor
       (Memo dated October 12, 2021)

   D. Status of Other External Audits Not Conducted at the Discretion of
       Internal Audit
       Richard P. Bendall, Chief Audit Executive
       (Verbal Presentation)

   E. Ethics Hotline Status Report
       Richard P. Bendall, Chief Audit Executive
       Kathryn Ton, Senior Internal Auditor
       (For Information Only) (Memo dated October 13, 2021)

   F. FYE 2022 Audit Plan Status Report
       Richard P. Bendall, Chief Audit Executive
       Leisha Collins, Principal Internal Auditor
       (For Information Only) (Memo dated October 13, 2021)

VII. CONSULTANT COMMENTS
     Robert H. Griffin, Audit Committee Consultant
     (Verbal Presentation)

VIII. ITEMS FOR STAFF REVIEW

IX. GOOD OF THE ORDER
     (For Information Purposes Only)

X.   EXECUTIVE SESSION

A.   Potential Threats to Public Services or Facilities
(Pursuant to Subdivision (a) of California Government Code Section 54957)

Consultation with: Sarah Pavelek, Plante Moran Engagement Partner; Jenny Trotta, Plante Moran Engagement Senior Manager; Terry Olejnik, AICPA Colleague Partner; Richard Bendall, LACERA Chief Audit Executive; Christina Logan, Principal Internal Auditor; Santos H. Kreimann, Chief Executive Officer; Luis A. Lugo, Deputy Chief Executive Officer; Kathy Delino, Systems Division Interim Manager; Bob Schlotfelt, Chief Information Security Officer; and Other LACERA Staff.

B.   Conference with Legal Counsel – Anticipated Litigation
Significant Exposure to Litigation (Pursuant to Paragraph (2) of Subdivision (d) of California Government Code Section 54956.9) and Initiation of Litigation (Pursuant to Paragraph (4) of Subdivision (d) of California Government Code Section 54956.9)

No. Of Cases: 1

X.   ADJOURNMENT

The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either the Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments. Members of the Board of Retirement and Board of Investments who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote on any matter discussed at the meeting. Except as set forth in the Committee's Charter, the only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

Documents subject to public disclosure that relate to an agenda item for an open session of the Board and/or Committee that are distributed less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the members of any such Board and/or Committee at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101 during normal business hours [e.g., 8:00 a.m. to 5:00 p.m. Monday through Friday].

Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.

MINUTES OF THE REGULAR MEETING OF THE AUDIT COMMITTEE OF THE

BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

9:00 A.M., THURSDAY, AUGUST 26, 2021

*This meeting was conducted by teleconference pursuant to the Governor's Executive Order
N-29-20.*

PRESENT: Joseph Kelly, Chair

                Shawn R. Kehoe, Vice Chair

                Vivian H. Gray, Secretary (Joined meeting at 9:07 a.m.)

                Alan J. Bernstein

                Keith Knox

                Gina V. Sanchez (Joined meeting at 9:03 a.m.) (Left meeting at 10:34 a. m.)

ABSENT: Roland A. Okum

                <u>MEMBERS AT LARGE</u>

                Patrick L. Jones

                <u>STAFF, ADVISORS, PARTICIPANTS</u>

                Santos H. Kreimann, Chief Executive Officer

                Luis Lugo, Deputy Chief Executive Officer

                JJ Popowich, Assistant Executive Officer

                Steve Rice, Chief Legal Counsel

                Richard Bendall, Chief Audit Executive

STAFF, ADVISORS, PARTICIPANTS (Continued)

Leisha Collins, Principal Internal Auditor

Christina Logan, Principal Internal Auditor

Kathryn Ton, Senior Internal Auditor

George Lunde, Senior Internal Auditor

Nathan Amick, Internal Auditor

Bernie Buenaflor, Quality Assurance Division Manager

Allan Cochran, Member Services Division Manager

Louis Gittens, Benefits Section Head

Kevin Hawkins, Benefits Retirement Specialist

Jenni Krengel, Buchalter ACP, Tax Counsel

Robert H. Griffin, Audit Committee Consultant

I.   CALL TO ORDER

The meeting was called to order virtually at 9:00 a.m., by Chair Kelly.

Plaza.

II.   APPROVAL OF THE MINUTES

A.   Approval of the Minutes of the Special Audit Committee Meeting of

June 24, 2021 Mr. Bernstein made a motion, Mr. Knox seconded, to approve the minutes of the Regular Audit Committee meeting of June 24, 2021. The motion passed (roll call) with Messrs. Bernstein, Kehoe, Knox, Kelly voting yes. Ms. Gray and Ms. Sanchez were absent from the vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEMS (Ms. Gray Joined the meeting at 9:07 a.m.)

A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, and Christina Logan, Principal Internal Auditor: That the Audit Committee approve the Revised Internal Audit Charter. (Memo dated August 17, 2021)

> Mr. Knox made a motion, Mr. Kehoe seconded, to approve staff's recommendation to approve the Revised Internal Audit Charter. The motion passed (rollcall) with Messrs. Bernstein, Kehoe, Knox, Kelly and Ms. Gray voting yes. Ms. Sanchez was absent from the vote.

Ms. Logan was present and answered from the Committee

V. REPORTS

A. Internal Audit Annual Performance Report FYE June 30, 2021
    Richard P. Bendall, Chief Audit Executive
    Leisha Collins, Principal Internal Auditor
    Christina Logan, Principal Internal Auditor
    (Presentation) (Memo dated August 18, 2021)

Mr. Bendall, provided a presentation and answered

questions from the Committee.

B. FYE 2022 Internal Audit Goals
    Richard P. Bendall, Chief Audit Executive
    Leisha E. Collins, Principal Internal Auditor
    (Memo dated August 16, 2021)

Mr. Bendall and Ms. Collins were present and answered questions from the Board.

C. Status of Other External Audits Not Conducted at the Discretion of
    Internal Audit
    Richard P. Bendall, Chief Audit Executive
    (Verbal Presentation)

V.   REPORTS (Continued)

Mr. Bendall provided a verbal update.

D. Internal Audit Staffing Activity Report
Richard P. Bendall, Chief Audit Executive
(Verbal Presentation)

Mr. Bendall provided a verbal update.

E. Ethics Hotline Overview
Richard P. Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated August 13, 2021)

This item was received and filed.

F.   FYE 2022 Audit Plan Status Report
Richard P. Bendall, Chief Audit Executive
Leisha Collins, Principal Internal Auditor
(For Information Only) (Memo dated August 13, 2021)

This item was received and filed.

G. 2021 Annual Audit Committee Calendar
Richard P. Bendall, Chief Audit Executive
Leisha E. Collins, Principal Internal Auditor
(For Information Only) (Memo dated July 30, 2021)

This item was received and filed.

VI.   CONSULTANT COMMENTS
Robert H. Griffin, Audit Committee Consultant
(Verbal Presentation)

Mr. Griffin provided comments to the Committee.

VII.   REPORT ON STAFF ACTION ITEMS

There was nothing to report.

VIII. GOOD OF THE ORDER

The Committee thanked staff for their work.

IX.   EXECUTIVE SESSION

 A. Conference with Legal Counsel – Anticipated Litigation
   Significant Exposure to Litigation (Pursuant to Paragraph (2) of Subdivision (d) of California Government Code Section 54956.9) and Initiation of Litigation (Pursuant to Paragraph (4) of Subdivision (d) of California Government Code Section 54956.9)

IX.   EXECUTIVE SESSION (Continued)

 No. Of Cases: 1

The Committee met in Executive Session pursuant to Government Code Section

54956.9 (d). There was nothing to report.

 B. Performance Evaluation – Chief Audit Executive Goals Report
   (Pursuant to Government Code Section 54957(b)(1)]
   (FOR AUDIT COMMITTEE ONLY PER COUNTY SALARY ORDINANCE 6.127.040.S.1)

 Title: Chief Audit Executive

 The Committee met in Executive Session with staff with regards to the Chief Audit

Executive's performance evaluation and goals report. There was nothing to report.

VI.   ADJOUNMENT

 There being no further business to come before the Committee, the meeting was

adjourned at 10:53 a.m.

(Supplemental Information (Information provided to the Trustees prior to the meeting)

  1. Internal Audit Annual Performance Report FYE June 30, 2021
   (Provided revisions to slide 11 of the presentation)

LACERA

October 14, 2021

TO: Each Trustee,
           Audit Committee

FROM: Steven P. Rice, SPR
           Chief Counsel

FOR: October 21, 2021 Audit Committee Meeting

SUBJECT: Approval of Teleconference Meetings Under AB 361 and Government Code
           Section 54953(e)

RECOMMENDATION

That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute.

LEGAL AUTHORITY

Under Section VI of its Charter, the Audit Committee controls its own meeting schedule and specifically "has such other powers as provided in the Brown Act." This authority includes the ability to manage the scheduling and manner of Committee meetings and to evaluate and act on legal options for the conduct of such meetings, such as whether to invoke teleconferencing of meetings under the terms and conditions provided in AB 361 and Government Code Section 54953(e) of the Brown Act to protect the health and safety of Trustees, staff, and the public.

DISCUSSION

A. Summary of New Law.

Section 54953(b)(3), as in effect since before the COVID-19 pandemic, provides for a teleconference meeting if: the agenda is posted at each teleconference location; the agenda identifies all teleconference locations; teleconference locations are accessible to the public and allow for public participation; a quorum of Trustees is located in Los Angeles County; and all votes are by roll call.

The Governor's Executive Order No. N-29-20, issued on March 17, 2020, relaxed these teleconference rules during the COVID-19 State of Emergency. LACERA, including the

Audit Committee, has held teleconference meetings throughout the pandemic under the authority of Order No. N-29-20. On June 11, 2021, the Governor issued Executive Order No. N-08-21 providing that the relaxed rules will expire on September 30, 2021, at which time the regular rules of Section 54953(b) described above will again be in effect.

On September 16, 2021, the Governor signed AB 361 which enacted new Government Code Section 54953(e) of the Brown Act to put in place, effective immediately and through December 31, 2023, new relaxed teleconferencing rules that may be invoked by local legislative bodies, such as the Audit Committee, upon making certain findings and following certain agenda and public comment requirements. A copy of Section 54953(e) in its entirety is attached to this memo.

Specifically, Section 54953(e)(3) provides that the Committee may hold a teleconference meeting without the need to comply with Section 54953(b)(3) if a state of emergency under Section 8625 of the California Emergency Services Act remains active or state or local officials have imposed or recommended social distancing rules, provided that the Committee, within 30 days of the first teleconference meeting and every 30 days thereafter (or at its next meeting), makes the following findings by majority vote:
   (A) The Committee has considered the circumstances of the state of emergency;
   (B) Any of the following circumstances exist:
      (i)   The state of emergency continues to directly impact the ability of the Trustees to meet safely in person;
      (ii)   State or local officials continue to impose or recommend measures to promote social distancing.

If the Committee makes the required findings, the Committee may hold teleconference meetings without the need to comply with the regular rules of Section 54953(b)(3) provided that: agendas are prepared and posted under the Brown Act; members of the public are allowed to access the meeting via a call-in option or an internet-based service option; the agenda provides an opportunity for public comment in real time and provides notice of the means of accessing the meeting for public comment; and public comment is provided on either a timed or per agenda item.

B. Information Supporting the Required Findings and Process if the Audit Committee Determines to Invoke Section 54953(e).

The Governor's State of Emergency for the COVID-19 pandemic as declared in the Proclamation of a State of Emergency dated March 4, 2020 remains active. The Proclamation was issued under the authority of Section 8625 of the California Emergency Services Act.

The Los Angeles County Department of Public Health maintains guidance to "Keep your

distance. Use two arms lengths as your guide (about 6 feet) for social distancing with people outside your household when you are not sure that they are vaccinated." http://publichealth.lacounty.gov/acd/ncorona2019/reducingrisk/.   The County Public Health Department also maintains guidance that employers should, "Implement policies and practices that support physical distancing: Whenever possible, take steps to reduce crowding indoors and enable employees and customers to physically distance from each other. Generally, at least 6 feet of distance (2 arm lengths) is recommended, although this is not a guarantee of safety, especially in enclosed or poorly ventilated spaces." http://publichealth.lacounty.gov/acd/ncorona2019/bestpractices/

The Centers for Disease Control and Prevention (CDC) also still advise the public that, "Outside your home: Put 6 feet of distance between yourself and people who don't live in your household." https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html#stay6ft%20.

The pandemic continues to present a significant health risk, as the virus presents itself in different variants. LACERA has not yet returned to the office. Management is preparing return to office vaccination and testing protocols to ensure the safety of LACERA employees, members, and others, including Trustees.

Under these circumstances, the Audit Committee may reasonably conclude and find that teleconferencing under Section 54953(e) is appropriate for the Committee meetings, if any, during the next 30 days because (1) the state of emergency continues to directly impact the ability of the Trustees to meet safely in person, and (2) the County and other authorities continue to recommend measures to promote social distancing, as required by the statute.

If the Committee makes these findings and directs teleconferencing under Section 54953(e), procedures exist and will be implemented to ensure compliance with the agenda and public comment requirements of the statute, as stated above. The Board of Retirement and Board of Investments made the required findings for each Board and their Committees on, respectively, October 6, 2021 and October 13, 2021. This item is brought to the Audit Committee for separate action because the Committee functions independently under its Charter, as explained above, with respect to the conduct of its meetings under the Brown Act. Going forward, so long as the State of Emergency remains in effect, this item will appear on Audit Committee agendas.

CONCLUSION

Based on the above information, staff recommends that, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find

that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute.

 Attachment

c: Santos H. Kreimann
       Luis Lugo
       Richard Bendall
       JJ Popowich
       Laura Guglielmo
       Carly Ntoya
       Leisha Collins
       Christina Logan

Government Code Section 54953(e)

(e) (1) A local agency may use teleconferencing without complying with the requirements of paragraph (3) of subdivision (b) if the legislative body complies with the requirements of paragraph (2) of this subdivision in any of the following circumstances:

(A) The legislative body holds a meeting during a proclaimed state of emergency, and state or local officials have imposed or recommended measures to promote social distancing.

(B) The legislative body holds a meeting during a proclaimed state of emergency for the purpose of determining, by majority vote, whether as a result of the emergency, meeting in person would present imminent risks to the health or safety of attendees.

(C) The legislative body holds a meeting during a proclaimed state of emergency and has determined, by majority vote, pursuant to subparagraph (B), that, as a result of the emergency, meeting in person would present imminent risks to the health or safety of attendees.

(2) A legislative body that holds a meeting pursuant to this subdivision shall do all of the following:

(A) The legislative body shall give notice of the meeting and post agendas as otherwise required by this chapter.

(B) The legislative body shall allow members of the public to access the meeting and the agenda shall provide an opportunity for members of the public to address the legislative body directly pursuant to Section 54954.3. In each instance in which notice of the time of the teleconferenced meeting is otherwise given or the agenda for the meeting is otherwise posted, the legislative body shall also give notice of the means by which members of the public may access the meeting and offer public comment. The agenda shall identify and include an opportunity for all persons to attend via a call-in option or an internet-based service option. This subparagraph shall not be construed to require the legislative body to provide a physical location from which the public may attend or comment.

(C) The legislative body shall conduct teleconference meetings in a manner that protects the statutory and constitutional rights of the parties and the public appearing before the legislative body of a local agency.

(D) In the event of a disruption which prevents the public agency from broadcasting the meeting to members of the public using the call-in option or internet-based service option, or in the event of a disruption within the local agency's control which prevents members of the public from offering public comments using the call-in option or internet-based service option, the body shall take no further action on items appearing on the meeting agenda until public access to the meeting via the call-in option or internet-based service option is restored. Actions taken on agenda items during a disruption which prevents the public agency from broadcasting the meeting may be challenged pursuant to Section 54960.1.

(E) The legislative body shall not require public comments to be submitted in advance of

the meeting and must provide an opportunity for the public to address the legislative body and offer comment in real time. This subparagraph shall not be construed to require the legislative body to provide a physical location from which the public may attend or comment.

(F) Notwithstanding Section 54953.3, an individual desiring to provide public comment through the use of an internet website, or other online platform, not under the control of the local legislative body, that requires registration to log in to a teleconference may be required to register as required by the third-party internet website or online platform to participate.

(G) (i) A legislative body that provides a timed public comment period for each agenda item shall not close the public comment period for the agenda item, or the opportunity to register, pursuant to subparagraph (F), to provide public comment until that timed public comment period has elapsed.

(ii) A legislative body that does not provide a timed public comment period, but takes public comment separately on each agenda item, shall allow a reasonable amount of time per agenda item to allow public members the opportunity to provide public comment, including time for members of the public to register pursuant to subparagraph (F), or otherwise be recognized for the purpose of providing public comment.

(iii) A legislative body that provides a timed general public comment period that does not correspond to a specific agenda item shall not close the public comment period or the opportunity to register, pursuant to subparagraph (F), until the timed general public comment period has elapsed.

(3) If a state of emergency remains active, or state or local officials have imposed or recommended measures to promote social distancing, in order to continue to teleconference without compliance with paragraph (3) of subdivision (b), the legislative body shall, not later than 30 days after teleconferencing for the first time pursuant to subparagraph (A), (B), or (C) of paragraph (1), and every 30 days thereafter, make the following findings by majority vote:

(A) The legislative body has reconsidered the circumstances of the state of emergency.

(B) Any of the following circumstances exist:

(i) The state of emergency continues to directly impact the ability of the members to meet safely in person.

(ii) State or local officials continue to impose or recommend measures to promote social distancing.

(4) For the purposes of this subdivision, "state of emergency" means a state of emergency proclaimed pursuant to Section 8625 of the California Emergency Services Act (Article 1 (commencing with Section 8550) of Chapter 7 of Division 1 of Title 2).

L/.CERA

October 13, 2021

TO: 2021 Audit Committee
            Joseph Kelly, Chair
            Shawn R. Kehoe, Vice Chair
            Vivian H. Gray, Secretary
            Alan Bernstein
            Keith Knox
            Ronald A. Okum
            Gina V. Sanchez

            Audit Committee Consultant
            Robert H. Griffin

FROM: Richard P. Bendall
            Chief Audit Executive

            Leisha E. Collins
            Principal Internal Auditor

            Christina Logan
            Principal Internal Auditor

FOR: October 21, 2021 Audit Committee Meeting

SUBJECT: **Approval of IIA Quality Services, LLC to Conduct the External
            Quality Assessment of the Internal Audit Division**

RECOMMENDATION

The Audit Committee approve engagement of IIA Quality Services, LLC to perform an External Quality Assessment of the Internal Audit Division.

BACKGROUND

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*) requires that an External Quality Assessment (EQA) of the internal audit department be conducted at least once every five years by a qualified, independent assessor or review team from outside the organization. This EQA evaluates the internal audit department's conformance with the *Standards* and the Code of Ethics.

External assessments may also focus on identifying opportunities to enhance internal audit processes, offer suggestions to improve the effectiveness of the internal audit activity, promote ideas to enhance the activity's image and credibility, and offer operational or strategic comments. This approach embraces the successful practices of the profession and emphasizes governance, risk management, and control processes as important areas for internal auditors' attention.

To remain in compliance with the *Standards*, the Internal Audit Division (Internal Audit) has undergone three EQAs. The first was conducted in 2005 and was performed by a peer group consisting of representatives of the Association of Public Pension Fund Auditors (APPFA). The second and third EQAs were completed in 2010 and 2016 by an audit consultant. For all EQAs, Internal Audit received the highest Refer to Attachment A for the 2016 EQA Report.

VENDOR SELECTION PROCESS

At the April 23, 2021, meeting, the Committee authorized the Chief Audit Executive (CAE) to issue a Request for Proposal (RFP) to hire a consultant to perform an EQA. The RFP was posted on the LACERA website on August 9, 2021 (Attachment B) and six responses were received: IIA Quality Services, LLC; Mitchell & Titus, LLP; TAP International. Inc, Armanino LLP, Sjoberg Evashenk Consulting and That Audit Guy, LLC.

An evaluation team consisting of the CAE, both Principal Internal Auditors, and Chief Legal Counsel evaluated the proposals. Key criteria for evaluation of the proposals included the firm's depth and breadth of expertise relating to internal audit functions and EQAs, qualifications and experience of the proposed assessment team, quality and cohesiveness of the proposal, sample reports, and fees.

SELECTION OF IIA QUALITY SERVICES, LLC

While each of the vendors had ample experience and demonstrated expertise in performing EQAs, the evaluation team agreed that IIA Quality Services, LLP (Quality Services) is uniquely qualified. Their EQA services are based on the world's recognized authority on internal auditing, the IIA. Furthermore, Quality Services has been helping to improve internal audit activities by offering EQAs for over 20 years. Having conducted more than 900 reviews involving hundreds of locations worldwide, Quality Services has experience with virtually every industry, many listed companies, and various levels of government.

Quality Services' methodology for this engagement is primarily based on the IIA's Standards and considers the effectiveness of internal audit in the eyes of the Audit Committee, senior management, and other stakeholders.

The objectives of the EQA will include accomplishing the following:

- Provide an opinion as to whether the IA activity conforms to The IIA's Standards and Code of Ethics.

- Review implementation of the Standards including the existence of a quality assurance process.

- Assess the efficiency and effectiveness of the IA activity in light of (a) its charter, (b) expectations of the audit committee, executive management, and the CAE, and (c) its current needs, exposures to performing at less than an effective level, and the future direction and goals of the organization.

- Identify opportunities and offer ideas and counsel for improving performance. By implementing selected successful practices, the IA activity can add increased value to management and the audit committee and further promote the image and credibility of the IA activity within the organization.

- Review interaction with the other members of the governance process and involvement in the enterprise risk assessment process, the building of the audit universe and preparation of audit schedules. This includes assessing the annual and long-range audit plans to determine whether audit areas represent current and future business plans, strategy, exposures, and operations.

- Determine the perception of internal auditing through interviews and surveys with executive management and customers. Provide insights into their level of satisfaction with internal auditing's services, along with appropriate suggested changes.

- Review and identify ways to enhance policies and practices, as well as coordination with external auditors.

QUALITY SERVICES ASSESSMENT TEAM

Quality Services has assembled a qualified team of subject matter experts to conduct this engagement. A brief summary of each member's qualifications and experience follows:

Steve Goodson is the team leader and has over 25 years of Internal Audit experience including over 14 years as a Chief Audit Executive. Steve now provides internal audit consulting services and teaches internal audit to graduate students at The University of Texas McCombs School of Business in Austin, Texas. Steve has been the recipient of at least six external quality assurance reviews and has led over a dozen. Steve has served as the Chief Audit Executive for the University of North Texas System, the Texas Department of Public Safety and the Texas Commission on Environmental Quality.

Steve has experience in state government, higher education, healthcare and non-profit areas. He is experienced in understanding and documenting a wide variety of internal control systems including the accounting and technology areas. He has managed audit

functions for billion-dollar organizations with staff sizes varying from 18 to 25 professionals. Steve graduated from Stephen F. Austin State University in 1985 with majors in Business and Sociology. He is a graduate of the Governor's Management Development Program and is a Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA) and Certified Government Auditing Professional (CGAP). He also holds certification in Control Self-Assessment (CCSA), Risk Management Assurance (CRMA) and is a Certified Law Enforcement Auditor (CLEA). In 2002, Steve co-founded the Texas Internal Audit Leadership Development Program. He has served as Governor for the Austin Chapter of IIA, CISA Coordinator for ISACA Austin and as Recorder, Vice Chairman and Chair of the Texas State Agency Internal Audit Forum. He currently serves on the IIA's International Committee of Research and Education Advisors and the Advisory Board for the American Center for Government Auditing.

Steve has participated in the IIA Quality Services' external assessments for:
- CalSTRS
- County of Orange
- Government of Bermuda
- Harris County
- Nashville Electric Service
- National Football League

Anne Etter is an internal audit executive with 30 years of experience, in internal audit services, enterprise risk management and financial compliance.. Through collaboration and strategic partnerships, Anne worked effectively with management and board of directors to improve trust in business reporting and decision making. She has demonstrated results in assessing and prioritizing risk and process improvement in order to achieve organizational strategic and financial goals. Her experience crosses multiple industries, having worked in biotech, nonprofit, automated retail, utility, and travel.

Anne most recently served as Vice President of Internal Audit for Outerwall, parent company to Redbox, Coinstar, EcoATM and Gazelle businesses. In this capacity she managed financial compliance (SOX) and their internal audit services. She reported to the Audit Committee, Board of Directors and Senior Vice President of Risk. Prior to joining Outerwall, Anne held the Vice President Risk, Advisory & Assurance Service position for Holland America Line & Seabourne and was also the Director of Internal Audit for Puget Sound Energy, Dendreon Corporation, World Vision US and Alaska Airlines.

Anne graduated from Central Washington University with majors in Business Administration, Finance and Accounting. She is a Certified Public Accountant (CPA) Certified internal Auditor (CIA) and Certified in Risk Management Assurance (CRMA) Anne holds a Professional Affiliation with The Institute of Internal Auditors, Puget Sound Chapter, having served on their Board of Directors. She has also served on boards for Enterprise Risk Forum, The American Lung Association and Seattle University Center for Business Ethics.

Anne has participated with IIA Quality Services' external assessments of:
- Amerisource Bergen
- Avista
- BellSouth
- Caterpillar, Inc.
- Central Mutual Insurance
- East West Bancorp
- FHLB Atlanta
- Imperial Irrigation District
- National Grid
- OCERS (Orange County Employee Retirement System)
- PRA Group
- Symetra Financial
- Trustmark National Bank

TIMELINE AND FEES

Quality Services has estimated that the EQA will take approximately 12 weeks at a cost of $27,000. As the assessment will be conducted virtually, no travel expenses will be incurred.

SUMMMARY

Quality Services offers a work plan and team that will provide the Audit Committee with insight into the adequacy of Internal Audit's functions, compliance with IIA Standards and the Code of Ethics, and best practices. For the reasons stated in this memo, it is recommended that the Audit Committee approve the engagement of Quality Services to perform an External Quality Assessment of the Internal Audit Division.

Attachments

RPB:lec:cl

LA.CERA

March 23, 2016

TO: Each Member
            2016 Audit Committee

            Audit Committee Consultant
            Rick Wentzel

FROM: Richard Bendall
            Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **QUALITY ASSURANCE REVIEW – 2016**

Internal Audit's Quality Assurance Review (QAR) was completed in January 2016. The QAR, which is conducted at least once every five years, is performed in accordance with the Institute of Internal Audit International *Standards for the Professional Practice of Internal Auditing*. The primary objectives of the QAR include:

- Assessing Internal Audit's conformance to the Institute of Internal Audit (IIA) International *Standards for the Professional Practice of Internal Auditing* (*Standards*),

- Evaluating Internal Audit's effectiveness in carrying out its mission

- Identifying leading practices and opportunities to enhance Internal Audit's management and work processes.

The consultant, George Shemo, found that Internal Audit **generally conforms** to the *Standards*. This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the *Standards* and other requirements necessary for ensuring a professional Internal Audit activity. As part of the QAR, Mr. Shemo also identified opportunities for improvement that will assist Internal Audit in more fully complying with the *Standards* and providing enhanced services to LACERA. Staff will discuss the QAR Report at the April 2016 meeting.

RB:lc

Attachment

G Shemo Consulting Inc.
George J. Shemo, CPA, CGMA
13 Pearce Lane
Ballston Lake, New York 12019

Office: 518-399-3235
Cell: 518-894-7477
Email: gjsmo1@nycap.rr.com

Certified: NYS
Member: AICPA
NYSSCPA
IIA

REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
OFFICE OF INTERNAL AUDIT

January 15, 2016

January 15, 2016

Under a contractual agreement with the Los Angeles County Employees Retirement Association (LACERA), I have conducted an independent external Quality Assessment (QA) of LACERA Internal Audit (IA). Being recognized by the IIA as fully qualified to conduct this QA of LACERA IA, my review was made in accordance with the methodology prescribed within the Institute of Internal Auditors' (IIA) "Quality Assessment Manual" (Issued August 1, 2013), and the requirements of IIA *Standard* 1312. The QA was conducted during the period of January 7, 2016 to January 15, 2016 at the offices of LACERA in Pasadena, California.

As a result of my review, it is my opinion, as of January 15, 2016, LACERA IA "Generally Conforms" with the IIA "Definition of Internal Auditing", the *Standards,* and the Code of Ethics. Further, I have found LACERA IA to be effective in carrying out its mission, as set forth in its charter and expressed in the expectations of the LACERA Audit Committee and senior management.

The overall assessment of "Generally Conforms" is the highest of three possible ratings that can be determined through a Quality Assessment; the others being "Partially Conforms" and "Does Not Conform". Please see "Attachment A", which is an integral part of this report, for an assessment of conformance with individual IIA *Standards*. I have provided recommendations to increase conformance for those individual IIA *Standards* that have been rated as "Partial Conformance", and to enhance the IA efforts in adding value to LACERA.

George J Shemo, CPA, CGMA

Purpose

As requested by the LACERA Chief Audit Executive (CAE), G Shemo Consulting conducted an independent external QA of LACERA IA. The principal objectives of the QA were to:

- Assess IA conformance to The IIA "Definition of Internal Auditing", *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Code of Ethics;
- Evaluate IA's effectiveness in carrying out its mission, as set forth in its charter and expressed in the expectations of the LACERA Audit Committee and senior management;
- Identify opportunities to enhance IA management and work processes, as well as its ability to add value to LACERA.

Scope and Methodology

Prior to my onsite arrival at LACERA to conduct the QA, the CAE provided advance preparation documents to me, which contained detailed information about IA and LACERA. Additionally, I conducted a preliminary meeting with the CAE and his staff in order to gather additional background information, select executives and operating managers for interviews during my onsite field work, and to finalize planning and administrative arrangements for the QA. Onsite fieldwork commenced on January 7, 2016 and concluded on January 15, 2016.

During the onsite fieldwork I conducted extensive interviews with a current member of the Audit Committee, members of executive management, selected operating managers, a representative of the external CPA firm, and selected members of the IA staff. I also evaluated the IA risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA work papers and reports.

Scope and Methodology (Continued)

The QA consisted of my assessing the following IA functions:

- CAE Reporting Lines and Quality Assurance
- Organization of LACERA IA
- Communications with the Audit Committee and Senior Management
- Risk Assessment and Engagement Planning
- Staff Professional Proficiency
- Information Technology Capabilities
- Productivity and Value Added to LACERA
- Audit Engagement Work Papers and Reports
- Audit Tools and Methodologies
- Engagement and Staff Management Processes

Summary of Recommendations

For Conformance

The following recommendations are provided to guide LACERA IA in achieving a level of general conformance with the individual *Standards* identified in Attachment A:

1. Strengthen and enhance Quality Assurance and Improvement
2. Implement procedures for audit engagement work programs

Summary of Recommendations (Continued)

For Enhancement

The following recommendations are provided as suggestions for enhancing IA ability for adding value to LACERA operations and processes:

1. Review the IA Charter on a more frequent basis
2. Expand management and reporting of IA resource requirements
3. Update the "IA Operations Guide"
4. Enhance engagement audit reports
5. Increase operating management's awareness of IA

Commendations

During my review, I observed the LACERA IA environment to be well-structured and progressive, that the IIA *Standards* are appropriately understood, and IA management is endeavoring to provide useful audit tools and implement appropriate practices in order to add value to the operations of LACERA. It is appropriate to commend LACERA IA for the following:

- The CAE maintains a very strong relationship with the LACERA Audit Committee, while also being recognized as a well-respected member of senior management.
- IA is perceived as providing value added assurance and consulting services to their LACERA customers.
- IA staff viewed very positively for their professionalism, objectivity, business acumen, and their communication and collaboration skills.
- IA staff is well credentialed with multiple professional certifications
- IA audit engagements and reports are substantial and valuable.
- IA annual planning for excellent interaction with the Audit Committee and all levels of LACERA management
- IA is instrumental in LACERA risk management.

1. Strengthen and enhance Quality Assurance and Improvement
Implementing Stakeholder: Internal Audit
Associated Stakeholders: Senior Management
**   Audit Committee**

References:
Standard **1311**
Practice Advisory 1311-1
Practice Guides - Measuring IA Effectiveness and Efficiency
**   - Quality Assurance and Improvement Program**

The CAE has implemented proper procedures that provide for the elements of a Quality Assurance and Improvement Program (QAIP) as it relates to the <u>ongoing monitoring</u> of the performance of the IA activity. Going forward, the CAE should develop procedures that provide for the required internal <u>periodic self-assessment</u> of IA activity conformance with the IIA *Definition of Internal Auditing*, the *Code of Ethics*, and the *Standards*.

The internal <u>periodic self-assessments</u> should be made by individual(s) having sufficient knowledge of internal audit practices and at least an understanding of the elements of the IIA *International Professional Practices Framework*, and could be performed by members of the IA staff or other qualified audit professionals assigned elsewhere within LACERA. The IIA *Quality Assessment Manual* can serve as the basis for periodic internal assessments.

As a means of further enhancing the <u>ongoing monitoring</u> of IA activity performance, the CAE could consider expanding the use of performance metrics. Expansion of metrics could focus on:

- Improvement in staff productivity
- Adequacy of engagement planning and supervision
- Increase in efficiency and effectiveness of the audit process
- Completion of audits timely and on budget

,

1. **Strengthen and enhance Quality Assurance and Improvement**
   (Continued)

The CAE could also consider further enhancements to the QAIP by adding information regarding the QAIP within the formal written status reports provided periodically to the Audit Committee and senior management, and by updating the "IA Operations Guide" to include all elements of the QAIP.

2. **Implement procedures for audit engagement work programs**

Implementing Stakeholder: Internal Audit

Reference:
Standards **2240, 2240.A1**

Work performed in conducting audit engagements is appropriately planned and properly supervised. However, only the preliminary planning and general audit procedures (planning memo) are documented within the engagement work papers. The detailed testing procedures, which are developed by the CAE, audit manager, and audit staff, are not formally documented within the work papers. The CAE should implement procedures to ensure that the detailed audit procedures are documented in the form of work programs. The written work programs should be in sufficient detail to include the procedures for identifying, analyzing, evaluating, and documenting information and conclusions. The work programs should also provide evidence that supervisory approval has been given, prior to staff conducting the work. Any adjustments to the original work programs should also be approved appropriately.

1. Review the IA Charter on a more frequent basis

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

Reference:

Practice Advisory: 1000-1

The IA Charter is intended to facilitate a periodic assessment of the adequacy of IA purpose, authority, and responsibility. While the IA Charter is complete and appropriately approved by the AC and senior management, the CAE could increase the frequency of his periodic assessment of the Charter's viability. An annual review would be appropriate period of time.

2. Expand management and reporting of IA resource requirements

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

References:

Practice Advisories 2020-1, 2030-1

The process developed by the CAE appropriately provides the Audit Committee and senior management with a risk based annual plan that determines the priorities of the IA activity consistent with LACERA's goals. The plan, as presented to senior management for their review and for the approval of the Audit Committee, properly communicates IA planned activities and resource requirements, and provides the basis for the CAE to ensure that IA resources are appropriate, sufficient, and effectively deployed.

2. <u>**Expand management and reporting of IA resource requirements**</u>
   <u>**(Continued)**</u>

There are potential opportunities to further enhance the CAE's management and reporting of IA resource requirements. The CAE could consider the following:

- Develop audit frequency guidelines, with the approval of the Audit Committee and senior management, which establishes a time period over which all auditable entities within the audit universe receive appropriate audit resources commensurate with their assessed risk. The frequency guidelines will establish and represent the "risk appetite" for LACERA. The length of the time period will be established based on the frequency guideline adopted for low risk entities. High risk entities, depending on their frequency guideline, will be audited more than once over the time period. Moderate risk entities may be audited more than once over the time period.

- Revise the annual plan format to include all auditable entities within the audit universe. For each entity to be audited within the current year, based on the established frequency guidelines, provide a resource estimate and brief scope description. For all the other entities, indicate the future year in which you estimate they will be audited.

- Revise the annual plan format to include time estimates for the expenditure of staff resources for non-audit purposes such as vacations, holidays, sick leave, and training. The plan should account for all staff time, except for the CAE.

3. <u>Update the "IA Operations Guide"</u>

Implementing Stakeholder: **Internal Audit**

Associated Stakeholders: **Operating Management**

Reference:

Practice Advisory 2040-1

The CAE could boost IA administrative and audit engagement processes by completing a comprehensive update of the "IA Operations Guide".

The CAE is responsible for establishing policies and procedures to guide IA. While their form and content is not stipulated within the *Standards*, given the size and structure of IA and the complexity of LACERA operations, maintaining a written policies and procedures manual would be appropriate.

A comprehensive update of the Guide would accomplish the following:
- Existing policies and procedures are made current;
- Obsolete information is eliminated;
- New processes are added;
- IA staff functions effectively;
- Consistency added to administrative processes, audit work, and work paper preparation;
- New IA staff members have an authoritative resource for reference and direction;
- Operating management can have a clearer understanding of the purpose and processes of the IA activity;
- Provide a valuable resource in any efforts to implement "Control Self-Assessment" within LACERA.

4. Enhance Audit Engagement Reports

Implementing Stakeholder: Internal Audit

Associated Stakeholders: LACERA Management

                                         Audit Committee

Reference:

***Standard* 2430**

There are potential opportunities to enhance IA audit reports. The CAE could consider the following:

- Based on the results of the QAIP, LACERA IA audit report opinions could be revised to state that audit engagements are "*Conducted in Conformance with the International Standards for the Practice of Internal Auditing*".
- Increase the consistency in audit report opinions by always, rather than sometimes, addressing the adequacy of policy, procedure, or process <u>design</u> when it is appropriate, in addition to <u>conformance</u>.
- When appropriate, audit report opinions should provide LACERA management with a clear understanding of the level of assurance they can place in the policy, procedure, or process audited. The objective to be achieved is for management to have reasonable, but not absolute assurance.
- Continue current efforts to increase the timeliness of audit reports.

5. <u>Increase operating management's awareness of IA</u>
   Implementing Stakeholders: Internal Audit

                                      Operating Management

Reference:

Successful Practice

The structure of the reporting relationship of IA within LACERA is entirely appropriate. It achieves complete independence for the IA, and establishes the proper environment to allow the IA to effectively support LACERA in fulfilling its mission and achieving its goals and objectives. However, there appears to be an opportunity to enhance the ability of the IA to add value to LACERA by raising the awareness of IA operations and services by operating managers having limited interaction with IA.

One of the keys to having a highly effective IA is the communication links, both formal and informal, between the CAE and all levels of management. At this point in time, the communication links between the CAE and senior management are well established and working effectively. The communication links between the IA and some operating management could be enhanced. Senior management could encourage these operating managers to reach out and include the CAE in the information flow for their operations. Likewise, the CAE could periodically reach out to all levels of operating management to ensure the IA is poised to continually meet their needs.

The CAE could consider taking the following steps for enhancing the relationship with LACERA management:

- Implement a practice of periodic face to face meetings with all operating managers and their staffs with a focus on current events

and ways IA can be of assistance to them, and provide them with an

5. <u>**Increase operating management's of awareness of IA**</u> (Continued)

- Update the intranet web page for IA providing information on services and activities of IA. The web page could be used to relate issues of common interest found in audit engagements, without disclosing the specific department in which the engagement was performed.
- Encourage and assist operating managers in implementing internal control self-assessment processes. Provide training to operating departments on control evaluation techniques, and serve as facilitators for self-assessment implementation.

I have read this report in its entirety, and accept responsibility for communicating it to the appropriate members of the Audit Committee and executive management. I understand that the "Recommendations for Conformance" should be implemented to achieve a rating of "General Conformance" for the individual IIA *Standards* which have been rated "Partial Conformance" as shown in Attachment A to this report. Accordingly, I accept the "Recommendations for Conformance" as appropriate to the IA of LACERA. Further, I understand the "Recommendations for Enhancement" and I will consider incorporating them as part of the IA "Quality Assurance and Improvement Program" as appropriate. I will prepare an action plan for implementing the appropriate recommendations and provide it to executive management and the Audit Committee.

Richard Bendall

Chief Audit Executive

LACERA Internal Audit

		GC	PC	DNC
OVERALL EVALUATION		x		
ATTRIBUTE STANDARDS		x		
1000	**Purpose, Authority, and Responsibility**	x		
1010	Recognition of the Definition of Internal Auditing	x		
1100	**Independence and Objectivity**	x		
1110	Organizational Independence	x		
1111	Direct Interaction with the Board	x		
1120	Individual Objectivity	x		
1130	Impairments to Independence or Objectivity	x		
1200	**Proficiency and Due Professional Care**	x		
1210	Proficiency	x		
1220	Due Professional care	x		
1230	Continuing Professional Development	x		
1300	**Quality Assurance and Improvement Program**	x		
1310	Requirements of the Quality Assurance and Improvement Program	x		
1311	Internal Assessments		x	
1312	External Assessments	x		
1320	Reporting on the Quality Assurance and Improvement Program	x		
1321	Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"	x		
1322	Disclosure of Noncompliance	x		
PERFORMANCE STANDARDS		x		
2000	**Managing the Internal Audit Activity**	x		
2010	Planning	x		
2020	Communication and Approval	x		
2030	Resource Management	x		
2040	Policies and Procedures	x		

Attachment A

2050	Coordination	x		
2060	Reporting to Senior Management and the Board	x		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	NA		
2100	**Nature of Work**	**x**		
2110	Governance	x		
2120	Risk Management	x		
2130	Control	x		
2200	**Engagement Planning**	**x**		
2201	Planning Considerations	x		
2210	Engagement Objectives	x		
2220	Engagement Scope	x		
2230	Engagement Resource Allocation	x		
2240	Engagement Work Program		x	
2300	**Performing the Engagement**	**x**		
2310	Identifying Information	x		
2320	Analysis and Evaluation	x		
2330	Documenting Information	x		
2340	Engagement Supervision	x		
2400	**Communicating Results**	**x**		
2410	Criteria for Communicating	x		
2420	Quality of Communications	x		
2421	Errors and Omissions	x		
2430	Use of "Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing"*	x		
2431	Engagement Disclosure of Nonconformance	NA		
2440	Disseminating Results	x		
2450	Overall Opinions	NA		
2500	**Monitoring Progress**	**x**		
2600	**Management's Acceptance of Risks**	**x**		
IIA Code of Ethics		**x**		

REQUEST FOR PROPOSAL

EXTERNAL QUALITY ASSESSMENT

August 9, 2021

Leisha Collins, Principal Internal Auditor
626-564-6000 ext. 3516 | lcollins@lacera.com
300 N. Lake Avenue, Suite 840
Pasadena, CA 91101

TABLE OF CONTENTS

EXHIBITS LIST

1. INTRODUCTION

1.1. Purpose of Request

Los Angeles County Employees Retirement Association (LACERA) is seeking qualified consultants to submit proposals to perform an External Quality Assessment (EQA) of LACERA's Internal Audit Division (Internal Audit). The objective of the EQA is to evaluate an internal audit activity's conformance with the Institute of Internal Auditors (IIA) Standards and the Code of Ethics. The EQA will also focus on identifying opportunities to enhance internal audit processes, offering suggestions to improve the effectiveness of the internal audit activity, promoting ideas to enhance the internal audit activity's image and credibility, and offering operational or strategic comments.

1.2. Instructions for Response

Respondents to this RFP must submit the following for delivery **no later than 5:00 PM PDT on September 10, 2021,** to the Point of Contact specified in Section 1.3. below:

- An electronic copy of the written response to this RFP. Exhibit B specifies the services that LACERA seeks, and Exhibit C provides the Proposal Requirements.

- An electronic copy of the written response marked "REDACTED", if applicable (See Section 5, Notice to Respondents Regarding the Public Records Act and Ralph M. Brown Act). The redacted copy should exclude all material from your proposal that you wish to disclose to LACERA but that you believe in good faith is exempt from disclosure under the California Public Records Act, Cal. Government Code Section 6250, et seq. Redactions should appear as blacked out material or blank page(s) with the word "REDACTED" or "PROPRIETARY" inserted. LACERA will comply with its legal obligations under the Public Records Act with respect to disclosure of redacted material. See Section IV below.

- Submittals shall address all RFP sections in the same order as specified in Proposal Requirements, Exhibit C. Optional material such as brochures or company information may be included as an attachment but will not be counted as responses to this RFP.

Responses received after the specified deadline may be considered for evaluation solely at the discretion of LACERA. In addition, LACERA reserves the right to request additional information or clarifications from respondents, or to allow corrections of errors or omissions.

1.3.   Contacts with LACERA Personnel

Contacts with LACERA personnel regarding this RFP, and all inquiries and requests for information shall be directed to the Point of Contact identified below:

| Leisha Collins |
| Principal Internal Auditor |
| LACERA |

Gateway Plaza	Email: lcollins@lacera.com
300 North Lake Avenue, Suite 840	Phone: 626-564-6000 ext. 3516
Pasadena, CA 91101-4199	

1.4.   Intent to Respond

If your firm chooses to respond to this RFP, please submit the Intent to Respond, Exhibits A, to Leisha Collins by 5:00 p.m. PDT August 30, 2021**.** Failure to submit your Intent to Respond may disqualify your firm from submitting a response to this RFP.

1.5.   RFP Questions

All questions, inquiries, and requests for additional information concerning this RFP should be directed to the Point of Contact, either by mail or email no later than August 18, 2021. LACERA's responses to written requests for clarification, or additional information, will be provided to all firms that have submitted an Intent to Respond and will be posted to LACERA's website in the RFP page.

1.6.   Quiet Period

Upon publication of this RFP, there shall be a quiet period to ensure that the RFP process is efficient, diligent, and fair. The quiet period is a "no contact period" and is intended to establish guidelines by which Trustees and staff will communicate with any firm that intends to or actually does submit a response to the RFP ("Firm"). Questions concerning the quiet period should be directed to LACERA's Legal Office.

The quiet period shall continue until a final selection is made or the process is otherwise terminated. During the quiet period, all Trustees and staff, except for designated LACERA contact persons, shall refrain from communicating with Firms.

During the quiet period, no Trustee or staff member shall accept meals, travel, lodging, entertainment, or any other good or service of value from any Firm. If any Trustee or staff member is contacted by a Firm during the quiet period about a matter relating to the pending selection, the Trustee or staff member shall refer the Firm to the Project Manager and report the contact to the Chief Counsel.

The quiet period does not prevent Board-approved meetings or communications by staff with an incumbent contractor that is also a bidding Firm, so long as their communication

is strictly limited to matters necessary in connection with the contractor's existing scope of work.

The quiet period does not prevent Board-approved meetings and communications by staff with any bidding Firm to the extent such communication is necessary as part of a due diligence process or necessary in connection with other LACERA business. Other than due diligence, discussion related to the pending selection is not permitted during these activities. A Firm may be disqualified from a search process for a willful violation of this policy.

1.7. RFP Selection Criteria

An evaluation team consisting of LACERA Senior Management will score proposals based on criteria including the candidate's qualifications, knowledge and experience as defined in this RFP. LACERA staff may also select firms based upon the selection criteria or utilizing a combination of interviews and reference verification. The evaluation team will recommend the selected firm for approval at the October 26, 2021, Audit Committee Meeting.

1.8. RFP Important Dates

The following table provides a tentative schedule of important dates and deadlines for this RFP. All dates are subject to modification by LACERA without notice.

Task	Date
Issuance of Request for Proposal	August 9, 2021
Written Questions and Requests for Clarification Due	August 18, 2021
Responses to Written Questions Posted	August 24, 2021
Intent to Respond	August 30, 2021
Request for Proposals Due	**September 10, 2021**
Selected Firm Notified	September 24, 2021
Finalize Audit Engagement Letter	October 15, 2021
Audit Committee Approval	October 26, 2021
Estimated Start Time for Assessment	November 2021

2. BACKGROUND INFORMATION

LACERA
LACERA was established in 1938 under the provisions of the County Employees Retirement Law of 1937 (Government Code Section 31450 et. seq.) ("CERL"). The California Constitution, CERL, the Public Employees' Pension Reform Act of 2013 (Government Code Section 7522 et seq.) ("PEPRA"), and the bylaws, procedures, and policies adopted by its two governing bodies, the Board of Retirement and Board of Investments, govern LACERA's operations.

LACERA collects, deposits, invests, and manages retirement trust funds solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries. LACERA's membership includes over 184,000 active and deferred members and over 67,000 retired members. LACERA acts as a fiduciary agent for the accounting and control of member and employer contributions and investment income.

LACERA has two Boards. The Board of Retirement is responsible for the general management of LACERA. Daily functions include the administration of retirement, disability and death benefits, member services, financial and accounting operations, information technology management, and administration of other post-employment benefits and related funding. The Board of Investments is responsible for LACERA's investment program. This includes the development of investment strategies, objectives, guidelines, and policies as well as delegating investment authority to outside investment managers who operate in conformance with LACERA's Investment Policy Statement and any other investment policies adopted by the Board of Investments.

2.1   LACERA's Internal Audit

Established in 1992, LACERA's Internal Audit is comprised of eleven employees including the Chief Audit Executive (CAE), two Principal Internal Auditors, five Senior Internal Auditors, one Internal Auditor, and an Administrative Assistant. The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. The CAE reports directly to LACERA's Board of Retirement and Board of Investments through the Audit Committee for functional purposes and administratively to LACERA's Chief Executive Officer (CEO). Refer to Internal Audit Organization Chart, Exhibit D.

3.   SCOPE OF SERVICES

To achieve the optimum benefits from an external assessment, the scope of work should include benchmarking, identification, and reporting of leading practices to assist audit divisions in becoming more efficient and/or effective. Furthermore, external assessments typically include an assessment of compliance with IIA Code of Ethics and Standards, evaluation of charters, policies and procedures, and inspection of audit work papers.

Key elements of the scope:

- The Internal Audit's Charter that documents the purpose, authority, and responsibility of the internal audit activity and is approved by the Audit Committee.

- The expectations of Internal Audit as expressed by the Audit Committee, executive management, and any other stakeholders.

- LACERA's control environment and the Chief Audit Executive's (CAE) audit practice environment.

- The focus on evaluating governance processes, enterprise risk, and assessing organizational controls in audit plans.

- The integration of Internal Audit into the organization's governance process, including the combined assurance relationships and communications between the key governance groups and the alignment of audit objectives and plans with the objectives of the organization as a whole.

The objectives achieved are to:

- Provide an opinion on the internal audit activity's conformance with the *Standards* and the Code of Ethics.

- Assess the efficiency and effectiveness of the internal audit activity considering its charter; its processes and infrastructure, including the quality assurance and improvement program (QAIP); the mix of knowledge, experience, and expertise; and the expectations of the Audit Committee (executive management, other stakeholders and assurance providers, and the CAE.

- Consider the internal audit activity's current needs and objectives, as well as the future direction and goals of the organization. Appraise the risk to the organization if the results indicate that the internal audit activity is performing at a less than effective level or is not in conformance with one or more of the Standards.

- Identify opportunities and offer ideas to the CAE and staff for improving the effectiveness of the internal audit activity, thereby raising the value added to management and the audit committee.

Refer to Exhibit B for STATEMENT OF WORK

4.   NOTICE TO RESPONDENTS REGARDING THE PUBLIC RECORDS ACT AND RALPH M. BROWN ACT

The information you submit in response to this RFP will be subject to public disclosure pursuant to the California Public Records Act (Cal. Gov. Code Section 6250, et seq., the "Act") in the sole discretion of LACERA based on its interpretation of its legal obligations under the Act. The Act provides generally that all records relating to a public agency's business are open to public inspection and copying, unless specifically exempted under one of several exemptions set forth in the Act. In addition, if LACERA staff chooses to recommend your Firm Audit Committee for hiring, such recommendation and the relevant proposal(s) will appear on a publicly posted agenda for a public meeting of the Board of Retirement in accordance with the Ralph M. Brown Act (Cal. Gov. Code Section 54950, et seq.), and parts or all of your proposal may be included in the agenda packet that is available to the public generally. If it is included in the agenda packet, your proposal will not be exempt from disclosure under the Act.

If you believe that any portion of your response to this RFP that is provided to LACERA for its review is exempt from public disclosure under the Act and should not be included as part of the agenda packet, you must mark such portion "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY," make it readily separable from the balance of your response and offer a brief explanation for the exemption under the Act. Responses marked "TRADE SECRET," "CONFIDENTIAL," or "PROPRIETARY" in their entirety will not be honored, and LACERA will not deny disclosure of all, or any portion of responses so marked. By submitting a response with material marked "TRADE SECRET," "CONFIDENTIAL," or "PROPRIETARY" you represent you have a good faith belief that the material is exempt from disclosure under the Act; however, such designations will not be conclusive or bind LACERA.

You may be required to justify in writing why such material should not, upon request, be disclosed by LACERA under the Act and should not be included in the agenda packet. Fee and pricing proposals are not considered "TRADE SECRET," "CONFIDENTIAL," OR "PROPRIETARY". LACERA may also in its sole discretion produce any information in your RPF response, including information marked "TRADE SECRET," "CONFIDENTIAL," or "PROPRIETARY," in response to a Public Records Act request if LACERA believes it is required by law to do so.

If a request is made pursuant to the Act for materials you have marked "TRADE SECRET," "CONFIDENTIAL," or "PROPRIETARY," and LACERA agrees that the material requested is not subject to disclosure under the Act, LACERA will either notify you so you can seek a protective order at your own cost and expense, or LACERA will not disclose those materials. If LACERA denies public disclosure, then by submitting your proposal you agree to reimburse LACERA for, and to indemnify, defend, and hold harmless LACERA, its officers, fiduciaries, employees, and agents from and against any and all claims, damages, losses, liabilities, suits, judgments, fines, penalties, costs, and expenses including, without limitation, attorneys' fees, expenses, and court costs of any nature whatsoever (collectively, "Claims") arising from, in connection with or relating to LACERA's nondisclosure. By submitting your proposal, you also agree to indemnify, defend, and hold LACERA harmless from and against any and all Claims arising from, in connection with, or relating to LACERA's public disclosure of any such designated portions of your response if LACERA reasonably determines disclosure is required by law, or if disclosure is ordered by a court of competent jurisdiction.

Nothing in this RFP requires LACERA to withhold any documents from production under the Act.

5.   NOTICE TO RESPONDENTS REGARDING LACERA DATA PROTECTION

LACERA, its consultants, vendors, and contractors have a duty to protect all LACERA data, including without limitation, information related to members and beneficiaries, finances, systems, and operations.

Depending upon the scope of work, the finalist selected through this procurement may have access to sensitive information protected by LACERA's internal policies, state law, and federal law. In such a case, by submitting a proposal, respondent agrees to subject itself to certain contractual terms designed to protect such information, including without limitation cyber liability insurance, SOC-2 reports (or, in the alternative, a *Security Controls Report* as per Exhibit G), systems penetration testing, and HIPAA Business Associate agreements, as the case may be.

6.   RESPONSES BECOME LACERA PROPERTY

The information you submit in response to this RFP will become the exclusive property of LACERA. Your response will not be returned to you, and LACERA will not be liable for and will not reimburse you for any costs your Firm incurs in connection with the preparation or submission of any proposal.

7.   CONTRACT NEGOTIATIONS

Upon Audit Committee approval, staff will enter into contract negotiations with the approved firm(s). LACERA may terminate negotiations, at its sole discretion, if it believes a satisfactory agreement cannot be negotiated. LACERA reserves the right to award a contract based upon proposals received; you should not rely upon the opportunity to alter your proposal (e.g., services to be provided, fees, etc.) during contract negotiations.

The final contract must allow LACERA to terminate a) for its convenience, b) if funds are not appropriated for the services to be provided, and c) for default.

8.   RESERVATIONS BY LACERA

LACERA reserves the right to cancel this RFP, in whole or in part, any time before the closing date.

LACERA is not liable and will not reimburse you for any costs your Firm incurs in connection with the preparation or submission of any proposal.

If you submit a response to this RFP, LACERA reserves the right to make such investigations as it deems necessary to determine your ability to furnish the required services, and you agree to furnish all such information for this purpose as LACERA may request.

LACERA also reserves the right to reject the proposal of anyone who is not currently in a position to perform the contract, or who has previously failed to perform similar contracts properly, or in a timely manner.

LACERA reserves the right to reject, in whole or in part, any and all proposals received; waive minor irregularities; negotiate in any manner necessary to best serve the public interest, and make a whole award, multiple awards, partial award, or no award.

LACERA reserves the right to award a contract, if at all, to the Firm or Firms that, in LACERA's sole discretion and judgment, will provide the best match to the requirements of the RFP and the needs of LACERA, which may not be the proposal offering the lowest fees.

LACERA reserves the right to request additional documentation or information from Firm. Requested information may vary by Firm. LACERA may ask questions of any Firm to seek clarification of a proposal or to ensure the Firm understands the scope of the work or other terms of the RFP. LACERA reserves the right to terminate or modify this RFP.

LACERA reserves the right to submit the final agreement between LACERA and the Firm the Audit Committee for approval.

This RFP is not an offer of a contract. Acceptance of a proposal does not commit LACERA to award a contract to any Firm, even if the Firm satisfied all requirements stated in this RFP. Publication of this RFP does not limit LACERA's right to negotiate for the services described in this RFP. If deemed by LACERA to be in its best interests, LACERA may negotiate for the services described in this RFP with a party that did not submit a proposal. LACERA reserves the right to choose to not enter into an agreement with any of the respondents to this RFP.

EXHIBIT A
INTENT TO RESPOND AND
MINIMUM QUALIFICATIONS CERTIFICATION

Intent to Respond

If you choose to respond to this RFP, please submit this form to Leisha Collins via email no later than 5:00 p.m. PDT August 30, 2021. Failure to submit your Intent to Respond may disqualify your firm from submitting a proposal.

LACERA's responses to written requests for clarification or additional information will be provided to all firms that have submitted an Intent to Respond.

To:	Leisha Colins	**From:**
Co.:	LACERA – Internal Audit	**Title:**
		Company:
Phone:	626-564-6000 ext. 3516	**Phone:**
Email:	LCollins@lacera.com	**Email:**
Re:	Intent to Respond	**Date:**

Our firm intends to submit a response for LACERA's RFP for the External Quality Assessment. Please forward inquiries to the following contact:

Name: _____

Title: _____

Company: _____

Mailing Address: _____

Telephone: _____

Facsimile: _____

Email Address: _____

MINIMUM QUALIFICATIONS CERTIFICATION

All candidates are required to sign and return this attachment, along with written evidence of how you meet each qualification. The undersigned hereby certifies that the candidate submitting this response fulfills the minimum qualifications outlined below, as well as the requirements contained in the RFP.

Minimum Qualifications include:
The following is a list of the qualifications for this engagement.

	Auditor Minimum Qualifications[*]	Yes	No
A.	The consultant/firm has provided services consistent with the services requested in this RFP for the past 10 years.		
B.	The consultant/team leader assigned to this engagement has experience that is comparable to that of the Chief Audit Executive of LACERA's		
C.	The consultant/team are certified internal audit professionals possessing a professional designation (e.g., CPA, CIA, CISA, etc.)		
D.	The consultant/team has a thorough understanding of current internal audit practices and the International Professional Practices Framework (IPPF) and its application, sound judgment, and good communication and analytical skills as they relate to external audit assessments.		
E.	The consultant/team possess or has ready access to all of the necessary technical expertise (e.g., governance, IT, risk management, internal audit attributes, management consulting, and internal audit management).		
F.	The consultant or at least one team member has knowledge of the organization's industry, service, or internal audit.		

[*] LACERA reserves the right to grant exceptions to the minimum qualifications with appropriate explanation and in our sole discretion.

The undersigned hereby certifies that he/she is an individual authorized to bind the Firm contractually, and said signature authorizes verification of this information.

_____   _____
Authorized Signature   Date

_____
Name and Title (please print)

_____
Name of Firm

EXHIBIT B
STATEMENT OF WORK

General Scope
To achieve the optimum benefits from an external assessment, the scope of work should include benchmarking, identification, and reporting of leading practices to assist Internal Audit in becoming more efficient and effective. Furthermore, the external assessment will include an assessment of compliance with IIA Code of Ethics and *Standards*, evaluation of charters, policies and procedures, and inspection of audit work papers. The IIA Quality Assessment Manual (QA Manual) should be used to provide guidance, criteria, and open-ended questions to stimulate ideas and deeper insights into:

- LACERA's governance process flowing from executive management and the Boards,
- Enterprise risk assessment process,
- Control environment established by executive management,
- Opportunities for future consulting services; and
- Operations of the audit activity as observed through the CAE and auditees.

Specific Elements for the assessment, should include but is not limited to:
- CAE Reporting Lines and Quality Assurance
- Organization of the Audit Activity
- Risk Assessment and Engagement Planning
- Staff Professional Proficiency
- Information Technology
- Production and Value Added
- Review of Selected Work Papers and Reports
- Interview with the LACERA Audit Committee Chair and Committee members
- Interviews with LACERA Executive Management
- Interviews with LACERA Senior Management
- Interviews with LACERA Audit Staff
- Interview with LACERA External Auditor

Key Procedures for Assessment:

1. Provide an opinion as to the level of conformance of the Internal Audit Activity with the IIA Standards and Code of Ethics.
2. Review Internal Audit's implementation of the Standards including the existence of a quality assurance and improvement program.
3. Review and assess Internal Audit's compliance with applicable legislation and regulatory requirements.
4. Assess the efficiency and effectiveness of Internal Audit in light of (a) its charter, (b) expectations of the Audit Committee and executive management, and (c) LACERA's current needs, and the future direction and goals of the organization.
5. Identify opportunities and successful practices for improving performance and enhancing Internal Audit's ability to add value and promote the image and credibility of Internal Audit.
6. Review Internal Audit's interaction with the other members of the governance process, involvement in LACERA enterprise risk management process.
7. Assess the efficiency and effectiveness of Internal Audit's process for building the audit universe and preparation of the audit schedule or audit plan.
8. Evaluate LACERA's organizational structure and approach used in auditing to determine whether resources are adequate to ensure proper audit coverage in all phases of business. This will also include the information technology audit function.
9. Comment on the background, mix and experience of staff, professional training, certifications, and tools and processes used.
10. Determine the LACERA perception of Internal Audit through surveys and interviews with the management. Consultant will provide insights into its level of satisfaction with Internal Audit services, along with appropriate suggestions for changes.
11. Review and identify ways to enhance LACERA's policies and practices, as well as coordination with its external auditors.

Deliverables
A detailed project plan should be developed which must include periodic updates presented to the Project Coordinator and relevant staff. A preliminary summary report and a final external assessment report, both to include observations, findings, and organizational change recommendations, will be presented to the Project Coordinator and relevant staff. A presentation on the external quality assessment results will be made to the LACERA Audit Committee.

EXHIBIT C
PROPOSAL REQUIREMENTS

Proposal Contents
Response to this RFP must be prepared and submitted according to the specifications set forth below, both for content and sequence. The proposal must provide a straightforward and concise description of the Proposer's capabilities to satisfy the requirements indicated in this RFP. Failure to adhere to these specifications may be cause for rejection of the proposal.

Section	Title
1.	Cover Letter
2.	Table of Contents
3.	Company Background & Experience
4.	Qualifications and Experience of Team
5.	References
6.	Project Planning and Approach
7.	Pricing

1. Cover Letter

This letter should provide a statement to explicitly affirm that the signatory on the cover letter is empowered and authorized to bind the vendor to the contract.

2. Table of Contents

Your proposal must include a table of contents identifying the proposal sections and corresponding page numbers.

3. Company Background & Experience

In this section we request that you provide an overview of your company including, but not limited to:

a) A brief history of your company that includes the number of years your firm has been in existence, the primary markets served, and experience directly related to the services that we are seeking.

b) The location of your corporate headquarters. Be sure to provide the address and contact information of your headquarters and, if applicable, local offices.

c) Key success factors and what differentiates you from your competitors as well as any awards or certificates received.

d) A Statement indicating the Proposer's understanding and commitment to providing LACERA with the audit consulting services as described in the Scope of Work in this RFP.

e) Describe any know or perceived conflicts of interest which may result if your firm were engaged to perform this service. Has your firm provided consulting services to LACERA within the past five years? If so, please describe.

4. Qualifications and Experience of Assigned Consultant/Team

a) Include the names of all personnel, including the lead consultant, expected to be assigned to the project. Include a detailed profile for each person detailing years of experience conducting services as requested in this RFP, for the past five years.

b) Include the lead consultant's and team's successful history and experience in meeting the objectives of similar engagements.

5. References

The Proposer shall provide three references for whom it has provided services as stated in this RFP from the past 10 years. For each client reference listed, please include:

- Entity name, address, and key contact person
- Date of service(s)
- Nature of business
- Primary contact name, title, telephone number, and email address
- Nature and length of Proposer's relationship with said entity
- Description of services provided by Proposer

6. Project Planning and Approach

Provide a detailed work plan and summary of criteria that your firm will employ to accomplish the objectives of this review. Your work plan should be prepared in a manner that demonstrates your understanding of the requirements described in this RFP as well as relevant IIA Standards.

7. Pricing

Provide all standard and foreseeable fees relevant to your proposal. Pricing should include billing rates, estimated number of billable hours, as well as other billable expenses such as travel and accommodations.

EXHIBIT D
INTERNAL AUDIT ORGANIZATION CHART

INTERNAL AUDIT

FISCAL YEAR 2021-2022

2020-2021 Bud. Pos.: 11.0	
2020-2021 Hiring Plan: 11.0	
2021-2022 Bud. Pos.: 11.0	
2021-2022 Hiring Plan: 11.0	

1.0 Chief, Internal Audit
Richard Bendall

1.0 Senior Secretary
Perla Gonzalez

Internal Audit Services

1.0 Principal Internal Auditor *
Christina Logan

1.0 Sr. Internal Auditor
George Lunde

Internal Audit Services

1.0 Principal Internal Auditor *
Leisha Collins

2.0 Sr. Internal Auditor
Gabriel Tafoya
Kristina Sun

+1.0 Sr. Internal Auditor
Vacant

1.0 Sr. Internal Auditor
Kathryn Ton

1.0 Internal Auditor
Nathan Amick

+ Added position
— Deleted position
* Classification study for the position requested

LA CERA

October 14, 2021

TO: 2021 Audit Committee
            Joseph Kelly, Chair
            Shawn Kehoe, Vice Chair
            Vivian H. Gray, Secretary
            Alan Bernstein
            Keith Knox
            Ronald Okum
            Gina V. Sanchez

            Audit Committee Consultant
            Robert Griffin

FROM: Richard P. Bendall
            Chief Audit Executive

            Leisha E. Collins
            Principal Internal Auditor

            Christina Logan
            Principal Internal Auditor

            Kathryn Ton
            Senior Internal Auditor

FOR: October 21, 2021 Audit Committee Meeting

SUBJECT: **LACERA Audit Pool – Approval of Eide Bailly, LLC to Conduct External
            Review of HR Recruiting Process**

RECOMMENDATION

The Audit Committee approve engagement of Eide Bailly, LLC to perform an external
review of the Human Resources Division's recruiting process.

VENDOR SELECTION PROCESS

At the April 23, 2021 meeting, the Committee approved Internal Audit's proposed pool of
firms to perform audits, advisory, consulting, and special projects on an as-needed basis.
The prequalified firms have subject matter expertise in organizational activities, information
technology, and investment-related services.

On September 10, 2021, Internal Audit requested bids from the prequalified audit pool to perform a comprehensive review of LACERA's Human Resources' recruitment functions. Five proposals were received: Crowe LLP; Eide Bailly, LLC; KPMG LLP; Moss Adams, LLP; and Weaver & Tidwell, LLP.

The selection team evaluated and discussed all information provided by the firms in several virtual meetings. The evaluation criteria included: depth and breadth of firm expertise in human resources; quality and experience of proposed team; detailed work plan to accomplish objectives; sample reports; and fees.

BASIS FOR SELECTION OF EIDE BAILLY

While each of the firms has ample experience and skill sets, the selection team recommends the Committee approve Eide Bailly LLC, (Eide Bailly) based on its team depth. Eide Bailly has extensive experience with California governments, providing services to more than 300 California government agencies and 1,200 governmental clients firmwide. Eide Bailly serves more than 1,100 employee benefit plans, many of which are peers of LACERA. The team's depth of experience in performing human resource reviews was the primary differentiator.

The Eide Bailly team includes:

Roger Alfaro, CPA is the Lead Partner responsible for this consulting engagement. Roger has over 20 years of experience serving California local governments, which include County of San Bernadino, County of Orange, and Southern California Regional Rail Authority (Metrolink). He has assisted clients with assisted clients with implementation of new GASB pronouncement, including pension and other post-employment benefit standards, internal audit services, risk assessment, performance audits, internal control reviews, and cost studies.

Audrey Donovan, CIA, CGAP, CRMA is the Project Senior Manager with 25 years of experience in internal audit, performance and operational audits, and financial consulting engagements. A large portion of her career was spent in the risk advisory services sectors of Big 4 public accounting firms. She has performed hundreds of human resource related engagements similar in scope to LACERA's bid memo and is the firmwide technical resource for internal audit and performance audits.

Lauri Dahlberg, PHR, SHRM-CP, is a HR Consulting Senior Manager and has more than 30 years of human resource experience assisting clients with identifying and implementing best HR practices to meet organizational goals and mitigate risks.

The team also consists of Doug Slyuk, CIA, CISA, an Internal Audit Manager with over 20 years of professional finance and audit management reporting experience. Nick Sidikovich, CPA, is another Internal Audit Manager with over 12 years of auditing experience. Cathy Villamar is an Internal Audit Associate, and everyone on the team has performed numerous, if not hundreds, of human resource related engagements.

Eide Bailly has laid out a three-step phasing of their work plan, which is briefly summarized as follows:

1. Planning and preliminary review of human resource recruitment process. Eide Bailly will conduct a risk-based analysis and develop appropriate procedures to perform the engagement. This phase includes obtaining information from the HR division through inquiries and interviews of departmental personnel. An assessment will be made on recruiting activities performed in alignment with applicable best practices and current rules and regulations.
2. Fieldwork to inspect, analyze, and test transactions and supporting documentation to provide reasonable assurance objectives are met. Since internal controls are frequently predicated on information system controls, Eide Bailly will perform a separate and full review of the HR recruiting system supporting the human resource and recruiting operations and related users for proper segregation of duties. All system or information technology related areas will be tested by Eide Bailly's technical experts.
3. Reporting based on interviews, data, and documentation gathered during fieldwork. Detailed, written findings will conform to the AICPA Consulting Standards and recommendations will be actionable, constructive, and incorporate best practices.

The timeframe for this engagement is 12-16 weeks, with an anticipated completion date by March 31, 2022. Eide Bailly's project fee is $45,000 with an appropriate number of hours given the scope and objectives of the engagement. Eide Bailly's proposal is attached as Attachment A.

<u>SUMMMARY</u>

Eide Bailly offers a detailed work plan and an experienced team to provide LACERA with insight into opportunities to enhance its human resources recruitment functions.

For the reasons stated in this memo, Internal Audit recommends the Audit Committee approve the engagement of Eide Bailly to perform an external review of the Human Resources Division's recruiting process.

RPB:lec:kt

Attachment

September 27, 2021

Review of Human Resources Recruiting Process for:

THE LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Submitted By:

Eide Bailly LLP

Roger Alfaro, CPA – Partner

300 N. Lake Ave., Ste. 930
Pasadena, CA 91101

September 27, 2021

Kathryn Ton, Senior Internal Auditor
Los Angeles Country Employees Retirement Association
300 N. Lake Avenue, Suite 840
Pasadena, CA 91101-4199

Via email: kton@lacera.com

RE: RFB Review of Human Resources Recruiting Process

Thank you for giving Eide Bailly the opportunity to detail our experience in providing similar consulting services and demonstrate why we would be the firm of choice to perform a comprehensive review of Los Angeles Country Employees Retirement Association's (LACERA) Human Resources (HR) recruitment functions.

We've developed the following proposal with LACERA in mind, and we'll provide timely, personalized HR consulting services in connection with executing an end-to-end review of processes, people, systems, and related controls for HR Recruiting processes. We'll get to know you and your staff and take the time to understand your specific challenges and opportunities. Our engagement will be performed under the *Statements on Standards for Consulting Services* issued by the American Institute of Certified Public Accountants (AICPA).

We pride ourselves on delivering honest and insightful advice beyond what is normally experienced in the public accounting industry. If you're still wondering "Why Eide Bailly," our tagline sums it up—what inspires you, inspires us. Your success is our success.

The following pages highlight our firm's strengths and demonstrate why Eide Bailly merits serious consideration. Know that you'll be a highly valued client. Our people would be proud to work with LACERA and build a trusting relationship with your team. Please contact us if you would like to discuss any aspect of this proposal.

Sincerely,

Roger Alfaro, CPA
Partner
909.466.4410
ralfaro@eidebailly.com

Table of Contents

1. Firm Qualifications

With qualified independent consultants, we have the necessary multidisciplinary expertise to meet your needs.

The governmental industry represents Eide Bailly's largest niche area—with more than 1,200 governmental clients firmwide. Through serving these clients, our professionals have gained focused expertise in the governmental industry and will provide you with insightful advice that aids in improving and managing the HR operations of LACERA.

Unlike many of our peers, we don't consider government an afterthought. We participate in the AICPA State and Local Government Expert Panel, Governmental Audit Quality Center and its Executive Committee and the Private Companies Practice Section (PCPS) Technical Committee, national boards of the AGA, including the Financial Management Standards Board and the review committee for the Government Finance Officers Association's (GFOA) Certificate of Excellence for Achievement in Financial Reporting. We also participate with the pension plan industry with involvement with P2F2 and NASRA. Due to our leadership positions and pension plan involvement, **LACERA will have access to information not available from other firms to help the decision-making process.**

Firmwide, Eide Bailly serves more than 1,100 employee benefit plans, which includes municipal and statewide governmental defined benefit pension and healthcare plans, defined contribution plans, agent multiple retirement systems, single-employer governmental defined benefit plans, corporate defined benefit and contributions plans, finance authorities and investment pools, **many of which are peers of LACERA**. A few of the services we provide our pension plan clients include assurance services, **information security (IS) and information technology (IT) consulting**, forensic consulting, and **internal control examinations.**

Government Clients — Sample List

Just a few of our largest governments we serve (or have served) include:

Boise City (Idaho)	Golden Gate Bridge, Highway and Transportation District
City of Roseville	Oklahoma University Health Sciences Center
Clark County (Nevada)	Orange County Transportation Authority (OCTA)
Clark County School District	Salt Lake City Corporation
Corona-Norco Unified School District	San Bernardino County Transportation Authority
County of Orange	San Bernardino City School District
County of Placer	San Francisco Unified SD

County of Sacramento	Santa Ana Unified School District
County of San Bernardino	Santa Clara County Valley Transportation Authority
County of San Diego	Southern California Regional Rail Authority (Metrolink)
County of San Joaquin	State of Montana Bureau of Investments
County of Santa Barbara	Southern Nevada Health District
County of Sonoma	State of Nevada
County of Ventura	State of South Dakota
Oakland Unified School District	California State Water Resource Development System
Idaho Housing & Finance	Summit County
Jefferson County Colorado	University of Oklahoma
Los Angeles County Office of Education	Virginia College Savings Plan
Los Rios Community College District	Washoe County
Massachusetts Gaming Commission	

Current Public Postemployment Benefit Plans and Investment Pool Clients

Our experience with similar public plans across the United States has allowed us to build extensive expertise in providing best practices for our pension plans as well as expertise with various investments, including fund of funds, derivatives, real estate, alternative investments, commingled funds and private equity. We also have the necessary expertise dealing with the various distribution options that are available to participants and the associated complexities involved with those calculations. **All this experience and expertise will make working with Eide Bailly more seamless.** Following is a summary of our experience with public plans and investment pools; this totals nearly $350 billion in plan assets.

Client Entity Name	Services Provided	Plan Assets	Dates of Service
GOVERNMENTAL INVESTMENT FUNDS			
Washington State Investment Board – Investments for Washington Retirement System	Financial Statement Audit, IS / IT Evaluation of Internal Controls.	$140 Billion	2015 – present
Washington Local Investment Pool	Annual Comprehensive Financial Report (ACFR), IS / IT Evaluation of Internal Controls.	$18 Billion	2018 – present
GOVERNMENTAL RETIREMENT SYSTEMS			
Utah Retirement System	ACFR, IS / IT Evaluation of Internal Controls, **SOC examination of internal controls.**	$41.0 Billion	2018 – present
Public Employees' Retirement System of Mississippi	ACFR, IS / IT Evaluation of Internal Controls.	$35.0 Billion	2016 – present
Public Employee Retirement System of Idaho	ACFR, IS / IT Evaluation of Internal Controls, Internal Control Examination.	$19.6 Billion	2008 – present
Teachers' Retirement System of Oklahoma	Financial Statement Audit, IS / IT Evaluation of Internal Controls.	$19.2 Billion	2016 – present
West Virginia Consolidated Public Retirement Board	ACFR, IS / IT Evaluation of Internal Controls.	$16.6 Billion	2020 – present
South Dakota Retirement System	ACFR, IS / IT Evaluation of Internal Controls.	$13.2 Billion	2012 – present
Missouri State Employees' Retirement System	ACFR, IS / IT Evaluation of Internal Controls.	$12.9 Billion	2019 – present
Wyoming Retirement System	ACFR, IS / IT Evaluation of Internal Controls.	$11.0 Billion	2015 – present

Client Entity Name	Services Provided	Plan Assets	Dates of Service
Oklahoma Public Employees Retirement System	Financial Audit Statement, IS / IT Evaluation of Internal Controls	$10.8 Billion	2017 – present
Fire and Police Pension Association of Colorado	**SOC examination of internal controls.** ACFR, IS / IT Evaluation of Internal Controls	$5.4 Billion	2018 – present
Fort Worth Employees' Retirement Fund	ACFR, IS / IT Evaluation of Internal Controls	$2.9 Billion	2017 – present
Municipal Fire and Police Retirement System of Iowa	Financial Statement Audit IS / IT Evaluation of Internal Controls	$2.6 Billion	2014 – present
Nevada Deferred Compensation Plan	Financial Statement Audit, IS / IT Evaluation of Internal Controls	$700 Million	2016 – 2019
New Mexico Public Employee's Deferred Compensation Plan	Financial Statement Audit, IS / IT Evaluation of Internal Controls	$600 Million	2013 – 2019

Please feel free to reach out to any of the above clients to learn more about their Eide Bailly experiences.

Thought Leadership

We pride ourselves on being leaders in the government industry, offering valuable perspectives beyond our core strength of accounting and tax compliance. Our professionals work closely together so you receive valuable service from people who understand your needs and know your business.

We have a number of webcasts and events offered throughout the year, with many focusing on issues relevant to LACERA. One upcoming webinar which may be of particular interest is included below. We hope you can join us!

▶▶▶ **HR Insight: Best Practices for Personnel File Maintenance & Surviving a Personnel Records Audit | October 8**

Registration Link

Human resources plays a critical role in organizational success. Reviewing your human resource practices can help avoid compliance issues, make life easier and allows you to focus on your passion and your people. An organizational audit identifies efficiencies and opportunities for growth related to recruiting, talent development, compensation, operations and exit strategy.

VISIT OUR WEBSITE TO SIGN UP FOR OUR NEWSLETTERS, E-BLASTS AND WEBINARS:

www.eidebailly.com

2. Team Member Qualifications

All personal selected to work with LACERA have specific knowledge and experience conducting multidisciplinary internal audits and consulting for government entities and other internal audit engagements. Your service team has extensive experience in the government industry and with performing internal audits including similar HR consulting engagements as being request by LACERA.

Your service team has extensive experience in the governmental industry, Information Technology audits, and Internal Audits including controls and applicable frameworks. Additionally, your team will consist of professionals dedicated to IT security and risk management practices of the firm. We invest heavily in continuing professional education for our team, so you can rest assured your service team is up to date on the latest trends, regulations, and best practice in the industry. You will benefit from our team approach, and your team members will have direct access to professionals who have performed hundreds of similar HR Benefit engagements for similar organizations. In other words, we will talk to each other and share experiences. If LACERA encounters a seemingly unique situation, we've likely seen it before and can help LACERA navigate the proper course.

We're passionate about our work—and your success. We've selected a large group of professionals for your service team who are the right fit for your engagement, based on their knowledge and experience in the benefit plan industry and with internal control testing. We know the importance of a strong relationship, so we keep staffing changes to a minimum. Eide Bailly has a high retention rate, allowing us to provide stability.

You'll find profiles for each team member in **Appendix A**. The following will provide an overview of your service team, led by Eide Bailly's Postemployment Benefits Group.

CLOSE PROXIMITY TO LACERA

Eide Bailly has an office in the Gateway Plaza Building, one floor above LACERA.
Yes, we're right upstairs.

Team Member	Qualifications and Experience
Engagement Leads	
Roger Alfaro, CPA Engagement Partner	With over 20 years of experience serving California local governments, Roger will be the local Client Relationship and Engagement Partner. He will work closely with the partners and LACERA to make sure the needs of LACERA are met. He can meet with LACERA in person at any given time. His experience includes performing financial and compliance audits for large/complex local governments. Clients served include County of San Bernardino, County of Orange and the Southern California Regional Rail Authority (Metrolink). He has assisted clients with the implementation of new GASB pronouncements, including pension and other post-employment benefit standards, internal audit services, risk assessment, performance audits, internal control reviews and cost studies.

Team Member	Qualifications and Experience
Audrey Donovan, CIA, CGAP, CRMA Project Senior Manager	Audrey has 25 years of experience in internal audit, performance/operational audit and financial consulting for both the public and private sectors. A large portion of her career was spent in the Risk Advisory Services sectors of Big 4 public accounting firms. Her experience includes managing internal audit consulting services, enterprise-wide risk assessments, process design and documentation engagements. She has literally performed hundreds of Human Resource related engagements similar in scope to LACERAs Bid Memo. She's the firmwide technical resource for internal audit and performance audit. Audrey works closely with Eide Bailly's Special Advisory and Risk Advisory Services, including fraud and forensic, information technology and quality assurance review.
Lauri Dahlberg, PHR, SHRM-CP HR Consulting Senior Manager	Lauri has more than 30 years of experience with human resources and focuses on assisting clients with identifying and implementing the best HR practices to meet organization goals and mitigate risk. By utilizing her expertise in HR, business leaders are able to focus on other elements of their business and achieve strategic initiatives.
Doug Slyuk, CIA, CISA Internal Audit Manager	Doug has over 20 years of increasing professional finance and audit management reporting to Executive Management. He effectively performed risk assessments, audit committee reporting, Sarbanes Oxley assessments in business and IT, and committee reporting in multiple industries including entertainment, transportation, and manufacturing. He also has performed numerous (100s) Human Resource related engagements similar in scope to LACERAs Bid Memo.
Nick Sidikovich, CPA Internal Audit Manager	With more than 12 years of auditing experience including Big 4 public accounting and industry experience, Nicholas provides risk advisory services to public and privately held companies in a variety of industries including oil and gas, health care and financial services. He also aids small government entities in improving business processes and creating and/or strengthening internal controls. He has an extensive experience in managing and executing SOX 404 internal controls testing as well as planning, executing and reporting on operational and compliance audits. Throughout his audit career, Nicholas has worked with business process owners as well as members of Senior Management to help identify operational and financial risks, ensure internal controls were appropriately designed to achieve control objectives, ensure control activities were carried out and provided constructive ideas for process improvement to mitigate the risks. He was involved in a process of evaluating control deficiencies and determining potential impact on the businesses. He has performed numerous (100s) Human Resource related engagements similar in scope to LACERAs Bid Memo.
Cathy Villamar Internal Audit Associate	Cathy provides assurance, internal audit, and risk advisory services in a variety of industries, including government, commercial, gaming, insurance, and nonprofit organizations. She has performed several HR related internal audit engagements. She has performed numerous (10-20) Human Resource related engagements similar in scope to LACERAs Bid Memo.

3. References

We've built our business on relationships and believe our clients to be the best critics of our service. The clients below have similarities to LACERA; we encourage you to contact them to learn about their Eide Bailly experiences.

▶▶▶ Similar Clients

Carson City, Nevada	Address	201 N Carson St., Ste. 3, Carson City, Nevada 89701
	Dates of Service	Client 2014 – Present
	Nature of Business	Local Government
	Primary Contact	Sheri Russell, Deputy Chief Financial Officer 775.283.7222 | srussell@carson.org
	Nature & Length of Relationship	CPA and Business Advisor for the City since 2014
	Description of Services	Outsourced Internal Audit Services: Annual Risk Assessment, Annual Audit Plan, conduct various internal audits (HR, Social Media, Accounts Receivable, Revenue, Accounts Payable, etc), individual project risk assessments, individual project audit programs, quarterly Audit Committee meetings, conduct follow-up activities, manage fraud, waste & abuse hotline, and deliver work on-time and on-budget.

County of Sacramento, California	Address	700 H St Rm 3650, Sacramento, California 95814
	Dates of Service	Client 2019 – Present
	Nature of Business	Local Government
	Primary Contact	Joyce Renison, Assistant Auditor - Controller 916.874.7248 | renisonj@saccounty.net
	Nature & Length of Relationship	CPA and Business Advisor for the County since 2019
	Description of Services	Outsourced Internal Audit: conduct Internal Audits that includes preliminary Risk Assessment, develop Audit Work Plan, deliver final Internal Audit Report

Adams County, Colorado	Address	4430 S Adams County Pkwy Ste C5300, Brighton, Colorado 80601
	Dates of Service	Client 2016 – Present
	Nature of Business	Local Government
	Primary Contact	Nancy Duncan, Finance Director 720.523.6792 | nduncan@adcogov.org
	Nature & Length of Relationship	CPA and Business Advisor for the County since 2016
	Description of Services	Fully Outsourced Internal Auditor: Annual Risk Assessment; Annual Audit Plan; conduct Internal Audits, Performance Audits; Information Technology Audits; Forensic Audits; Business Consulting

Sample Reports

Due to size, we have included sampled reports as **Appendix B.** These reports are examples and samples of what your report could look like. We understand and believe that these are your reports and we will work with you to deliver a final product that meets your approval while maintaining compliance with applicable standards.

4. Proposed Scope of Work and Methodology

Once selected, we will schedule an **Opening (Planning) Conference** with LACERA to confirm timing, goals and objectives. Additionally, we will work with LACERA to identify known project constraints and discuss the approach for managing communications between Eide Bailly and LACERA. We will discuss our approach to scope, risk and the prioritization of tasks; the types of information and documentation that exists for the examination; and the level of anticipated involvement of LACERA personnel.

By engaging in thorough examination planning and communications with LACERA's internal audit management, we begin each engagement building a strong understanding of the various deadlines involved to complete the engagement on time and on budget in the most efficient means possible. An examination project plan will be developed between our team and LACERA and then followed closely. We will work with LACERA's internal audit team to customize our auditing services and specific timelines to your needs. We believe in clear, up-front and open communication with no surprises.

During the engagement, we will hold periodic meetings with your management. This continuous communication ensures you're fully informed and provides us with timely information that will enable us to best serve your organization. We firmly believe in no surprises when it comes to potential findings. It will be during these periodic meetings where we will discuss the potential issues and come to a conclusion early in the process and not at the end.

During the Opening Conference, we'll discuss with management:
- The engagement timeline.
- The statement of work approach and process.
- Additional considerations that may affect scope, schedules and workpapers to be prepared by your personnel.

OVERALL METHODOLOGY

The internal consulting engagement will entail the entire audit process from planning to reporting to include the following:

- Leading entrance/exit conferences and interviews (a representative from LACERA should attend the entrance/exit Conferences).
- Performing a preliminary risk assessment and engagement planning.
- Conducting fieldwork.
- Providing regular status updates to LACERAs internal audit management.
- Preparing engagement workpapers.
- Preparing written reports and communicating engagement results.

APPROACH

The Human Resource Recruiting internal consulting engagement will be performed in accordance with our three-phase internal assessment methodology as follows:

PHASE 1	PHASE 2	PHASE 3
Planning	Fieldwork	Reporting

PHASE 1: PLANNING

Engagement Letter

The primary purpose of the engagement letter is to ensure a clear understanding between the two parties regarding the project. This letter states the terms and conditions of the project, describes the scope of the work, and specifies the responsibilities of LACERA.

Entrance Conference

At the beginning of the HR Recruiting consulting engagement, we'll schedule a meeting (typically referred to as an entrance conference) with designated LACERAs internal audit and HR personnel. Department management or designated personnel are asked to participate in this entrance conference to discuss the scope and objective of the consulting engagement, as well as the steps involved.

Management is also asked to assign a contact person who may also serve as a liaison in assisting the engagement team ("team") to obtain information, documentation, and to whom the team should communicate findings during the process, provided any are identified.

We'll provide weekly updates as our work progresses.

Planning and Preliminary Review

During the planning phase of the engagement we conduct risk-based analysis to assess risk (*risk assessment*) and develop appropriate procedures to perform the internal consulting engagement (*plan*). We'll review various aspects of the HR Recruiting process within the HR division of LACERA. This review will include an assessment of the internal control structure, as well as the strategy and workforce plan to assess risk and determine appropriate procedures to be performed. The team's review may also include reviewing organizational charts, LACERAs rules & regulations, state statutes, policies and procedures, agreements, management directives and any other type of information or documentation that will help the team obtain a good understanding of the recruiting process being assessed.

This phase includes obtaining information from the HR division through inquiries and **individual interviews of all departmental personnel** (approx. 4 ppl based on Bid Memo).

The Planning and Preliminary Review provides the following outcomes:
- Assessment of significant risk, and therefore, solidify the scope, criteria, andmethodology for addressing the objectives.
- Consulting engagement plan developed that details the methodology designed to obtain sufficient, appropriate evidence that provides a reasonable basis for any findings and conclusions and to reduce risk to an acceptably low level.

The Primary Scope of Work will address the following **HR Recruiting Objectives**:
- LACERA's Recruitment Policy and Procedures, including an evaluation of its integration with the organization and divisions and compliance with applicable employment laws and regulations.
- HR's strategy and workforce plan to prioritize and fill vacancies.
- HR staffing and resources to support the hiring demands of the organization, including the recruiters' workloads and expertise.
- The selection criteria of the standard organizational competencies, including job-relevant criteria (as stated in the job description) and future requirements.
- Analysis of LACERA's dependance on plan sponsor's ordinance and position classification policy and process as it relates to recruitment.
- The recruitment strategy to target a qualified, diverse and inclusive candidate pool.
- The candidate ranking process.
- The timeliness of recruitment process to secure high-quality candidates.
- Effectiveness of the communication and collaboration of HR and Managers throughout the recruitment process. This area will also include gap analysis of Manager satisfaction with final candidate pools in alignment with qualifications of candidates that they are seeking.
- Completeness of background checks during the on-boarding process.
- Compliance with document retention and confidentiality requirements set forth by employment laws and LACERA's policies.

Additional objectives that will be included in the internal consulting Work Plan include:
- Assess whether controls over Human Resources, specifically recruitment, are designed adequately and operating effectively to ensure compliance with key federal and state regulations, as well as internal policies and procedures.
- Evaluate whether recruitment activities performed within Human Resources are in alignment with applicable best practice and current rules & regulations.
- Evaluation of turnover by department and role to identify turnover frequency.
- Effectiveness of on-boarding functions.

Steps to include in Work Plan include, but not limited to:

- We will review the recruitment process to determine if best practices are being utilized to attract, recruit, and hire the talent needed to make the organization successful.
- We will interview individuals involved in the recruitment of talent for LACERA to identify if a consistent process is followed, and if it contains the necessary components to hire the best candidates while complying with federal and/or state regulations.
- We will review the recruitment-related documents gathered during the process of filling positions over the past twelve (12) months to confirm if established processes are followed, and if there are opportunities to improve the process.
- (If desired) We will review information on the organization's benefit offering, including health-related benefit coverage, employer contributions, paid time off, retirement benefits, training opportunities, and LACERA's performance management process to determine if areas for development exist to improve retention.
- (If desired) We will conduct an Employee Survey to gather input from employee's related to their thoughts on the quality of their supervision, senior leadership, recognition, career opportunities, and long-term plans to stay with the organization.

Consulting Engagement Plan Approval

Based on the information gathered from the planning meeting(s) and risk-based activitiesperformed, Eide Baily develops a **Work Plan** and schedule to be presented to the LACERA internal audit management for input and approval. The Work Plan will include an overview of the objectives, scope, methodology, timing, and planned reporting.

PHASE 2: FIELDWORK

Fieldwork

Based on the Work Plan, we'll conduct fieldwork to conclude on objectives. During this phase of the consulting engagement, we'll inspect, analyze, and/or test transactions and supporting documentation to provide reasonable assurance that objectives are met. Throughout our fieldwork, we'll obtain and document sufficient evidence to support our findings, conclusions, and recommendations.
Since internal controls are frequently predicated on information systems controls, duringthis phase, we'll perform a separate and full review of the HR Recruiting system(s) supporting the human resource and recruiting operations and related users for proper segregation of duties. All system or information technology related areas will be tested by one or our technical experts.

Since internal controls are frequently predicated on information systems controls, during this phase, we'll perform a separate and full review of the HR Recruiting system(s) supporting the human resource and recruiting operations and related users for proper segregation of duties. All system or information technology related areas will be tested by one or our technical experts.

Any significant issues or potential findings identified during this phase will typically be relayed to LACERA internal audit management to ensure proper communication and avoid surprises at the time the draft report is issued.

We'll identify potential weaknesses, offer practical recommendations to reduce risk, improve efficiency, effectiveness, and internal controls in the context of the objectives based on years of experience and knowledge of best practices related to both Human Resources and Recruiting processes.

PHASE 3: REPORTING

Summary

This phase will involve the analysis of all the interview information, data and documentation gathered during fieldwork, including the following:

- Development of observations and report documenting the results.
- Review by LACERA internal audit management, and HR department management.
- Finalization of the reports including documentation of "Managements Response" for further follow-up to ensure appropriate corrective action has been taken to remediate risks identified.

Draft Internal Consulting Engagement Report

Using the data and documentation gathered in Phase 2 – Fieldwork, we'll prepare a draft HR Benefits Consulting Engagement Report describing our observations and recommendations within **two (2) weeks** of completing fieldwork. We'll draft complete, detailed written findings conforming with Standards. For each finding, we'll develop recommendations that are actionable, realistic, specific, cost effective and constructive, that directly address the cause of the problem and incorporate best practice.

We'll prepare and submit the draft Consulting Engagement Report to LACERAs internal audit management, HR management, and applicable parties. All parties will have at least **ten (10) working days** / *two weeks* to review the draft Consulting Engagement Report and provide comments. HR Division management will be instructed to provide a written response to each recommendation, indicating agreement or disagreement, a brief description of the actions that are planned to address the condition/risk noted in the finding, and a target date by which the corrective action will be implemented.

Reporting on Instances of Fraud – If we obtain sufficient, appropriate evidence to conclude that fraud has occurred or likely to have occurred, we'll communicate thoseinstances immediately, including those that are insignificant within the context of theobjectives, but warrant the attention of the Internal Audit Division.

Exit Conference

We'll hold the Exit Conference with the Internal Audit Division, HR Division, and applicable department personnel to communicate the results of the consulting engagement, noted internal control deficiencies, observations, and recommendations. The Exit Conference will occur after the applicable parties have had at least *two weeks* to review the draft report. Key members of our project team will participate in the meeting. We'll go through the draft consulting engagement report in detail, make corrections if needed, and incorporate suggestions from management, as practical. We'll discuss managements responses to address the recommendations and target dates for implementation of corrective action.

Final HR Recruiting Consulting Engagement Report

Following this meeting, we'll make appropriate revisions to the draft consulting engagement report and deliver the final HR Recruiting Consulting Engagement Report. The final report includes an executive summary, the background, scope and objectives, methodology, findings, recommendations, and management's response. The final report will be submitted within **one (1) week** after the exit conference is held.

Communication*.* Communication is the key to performing effective examinations. We have found when we work **with our clients**, rather than for our clients, the professional services rendered take on a much higher value. **We strive for a "no gotchas" environment – you can expect to be informed along our journey.**

We recognize each client is unique and design our work plan according to your specific needs and the risks identified. We customize our approach and procedures based on the existing foundation of the control objectives and activities that have already been established, taking into consideration changes, enhancements or other modifications to your processes and procedures. We also consider feedback you have received from your regulatory bodies and users so that the value received by user organizations is enhanced by addressing those specific questions.

At Eide Bailly, we promise you a better overall experience. While we recognize that multiple firms can accomplish the objectives of an examination, we appreciate that every situation and every organization is different, and we tailor our approach based on the needs of each client.

The examinations within the scope of this engagement require effective planning and a coordinated approach to capitalize on efficiencies across similar systems and processes. To take full advantage of these efficiencies, our scope, approach, and methodology will be coordinated across the teams working in the areas of examination as discussed in the next section. Each team member will have access to all workpapers and all decisions, allowing parallel tracks of the engagement.

5. Engagement Fees

Proposed Fee Schedule

Eide Bailly

Position/Hourly Rate	Partner		Senior Manager		Manager		Staff		Subtotal	
	$250		**$225**		**$200**		**$140**			
	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost
HR recruiting process	24	$6,000	40	$9,000	80	$16,000	100	$14,000	244	$45,000
Project Fees	24	$6,000	40	$9,000	80	$16,000	100	$14,000	**244**	**$45,000**
Estimated Travel										NA
Other										NA
Travel Costs	NA		NA		NA		NA		**Total**	NA

The professional fees listed below are **inclusive of all out-of-pocket expenses** and you will not be billed for expenses such as travel time, mileage, and meals.

6. Timing

We will begin our procedures upon acceptance of this engagement agreement and direction provided by LACERAs internal audit management. We would expect to have the HR Recruiting consulting engagement work completed within 12 – 16 weeks of starting the engagement. This timetable assumes:

- Start date on or before December 6, 2021.
- The timely receipt of requested information and the cooperation of the parties involved. If delays are experienced in receiving information, the delivery of our work will be delayed accordingly.
- Final report with management responses on or before March 31, 2022.
- Presentation to Audit Committee, if requested by LACERA staff.

We understand your requested timeline and are committed to meeting your deadlines.

By engaging in thorough planning and communications with management, we begin each engagement with a strong understanding of the various deadlines and the steps involved along the way to meet these deadlines. A project plan will be developed between our team and LACERA and then followed closely. We will work with LACERA's internal audit management team to customize our auditing services and specific timelines to your needs. We believe in clear, up-front, and **open communication with no surprises.**

>>> Engagement Timeline

Activity	Timing				Task Duration	Estimated Timing
	Dec	Jan	Feb	Mar		
Planning					2 weeks	60 hours
Fieldwork					6 – 8 weeks	144 hours
Reporting					4 weeks	40 hours
Ongoing Communication					**Total 12 – 14 weeks**	**Total 244 hours**

The Right Choice for the LACERA

To us, work isn't just work; we see it as a chance to help you solve problems, achieve goals, and pursue passions. After thoughtfully reviewing your needs and taking the time to understand your business, we feel we're the best fit for this opportunity.

If you have questions or would like additional information, don't hesitate to contact us. We want to make sure you have everything you need to make your decision.

▶▶▶

Roger Alfaro, CPA
Partner
Ph. 909.466.4410
ralfaro@eidebailly.com

We Want to Work with You

We're driven to help clients take on the now and the next with inspired ideas, solutions and results. We look forward to working with you.

Appendix A — Team Profiles

ROGER ALFARO, CPA, CITP
Partner

909.466.4410 | ralfaro@eidebailly.com

Roger provides accounting, audit and advisory services to commercial and governmental entities throughout California. His experience includes manufacturing, healthcare, nonprofit and governmental entities including cities, counties, special districts and state agencies.

Roger began his professional career with a Big 4 International firm working with large commercial and governmental entities. His expertise includes the complex accounting and regulatory requirements for single audit compliance, and he is recognized as a leader in Uniform Guidance audit requirements. He has conducted financial statement audits for commercial and public companies and single audits for governmental agencies with assets exceeding $1 billion.

As a speaker and trainer, Roger has provided individualized workshops focusing on reporting requirements, new accounting pronouncements and AICPA professional standards. His expertise in this area is recognized by his clients, his peers and staff.

Memberships
American Institute of Certified Public Accountants

California Society of Certified Public Accountants

Government finance Officers Association (GFOA) Certificate Program Special Review Committee

Designation/Licensures
Certified Public Accountant

Certified Information Technology Professional

Education
Bachelor of Science, Business Administration – California State University, San Bernardino

AUDREY DONOVAN, CIA, CGAP, CRMA
Senior Manager

303.586.8533 | adonovan@eidebailly.com

Audrey helps state and local governments with performance audits. She also assists privately held and publicly traded companies with internal audits. Audrey is detail-oriented and focused and takes the time to understand the overall expected outcomes. She will work with you to identify the best approach that is both efficient and effective. Outside of work, Audrey enjoys spending time skiing, golfing, sewing, painting, visiting craft breweries and spending time with her family.

Client Work

Audrey has 25 years of experience in internal audit, performance/ operational audit and financial consulting for both the public and private sectors. A large portion of her career was spent in the Risk Advisory Services sectors of two Big 4 public accounting firms. Her experience includes managing internal audit consulting services, enterprise-wide risk consulting engagements, process design and documentation engagements. She is the firmwide technical resource for internal audit and performance audit. She works closely with Eide Bailly's Special Advisory and Risk Advisory Services, such as, fraud and forensic, information technology, and quality assurance review. Audrey has managed and performed hundreds of operational and performance audits and utilized various performance audit methodologies, including benchmarking, surveys, data analytics, social impact analysis and facilitated sessions.

She was formerly with the City and County of Denver (CCD), Colorado as the Deputy Director for Audit Services, where she managed the City's performance-based auditing, internal auditing, information technology audits, project planning, and citywide risk assessment. Audrey has a broad range of internal audit experience including performing compliance, performance-based, and operational audits; financial and data analysis; process improvement and development; controls implementation; and regulatory reporting.

Audrey holds a master's degree in management from Colorado State University and a bachelor's in accounting from the University of Utah. She is a Certified Internal Auditor (CIA), Certified in Risk Management Assurance (CRMA), and Certified Government Audit Professional (CGAP). She is a member of the Association for Local Government Auditors (ALGA,) a member of the Institute of Internal Auditors (IIA), where she served on the International Public Sector Committee, and she is active locally in the Colorado City & County Management Association (CCCMA).

Memberships
Institute of Internal Auditors

Association for Local Government Auditors

Association of Government Accountants

Colorado Government Finance Officers Association

Finance Executive International

Designation/Licensures
Certified Internal Auditor

Certified Government Audit Professional

Certified Risk Management Assurance

Education
Bachelor of Science, Accounting – University of Utah

Master of Science, Management – Colorado State University

Community
Super Twins of the Rocky Mountains (STORM)

LAURI DAHLBERG, PHR, SHRM-CP
Human Resources Consulting Manager

INSPIRATION: I'm passionate about helping companies succeed through innovative Human Resources practices. My goal is to share my knowledge and expertise from years of interacting with individuals at all levels of an organization, so they can reach new heights of success.

208.383.4740 | ldahlberg@eidebailly.com

Lauri has more than 30 years of experience with human resources and focuses on assisting clients with identifying and implementing the best HR practices to meet organization goals and mitigate risk. By utilizing her expertise in HR, business leaders are able to focus on other elements of their business and achieve strategic initiatives.

When you work with Lauri, you can expect her to listen to what you want to accomplish with your HR practices in the areas of employment policies, recruitment, benefits, performance management and compensation. She'll identify solutions that are unique to your organization and compliant with federal and state labor laws.

Outside of work, Lauri enjoys supporting youth sports by volunteering her time and efforts to making school and community sports accessible and enjoyable for those who want to take part.

Client Work
Develops recruitment and on-boarding processes and tools that assist clients with attracting, hiring and on-boarding the right people with the proper skill set to perform the jobs needed to help the company be successful.

Collaborates with company leaders to identify health benefits, time off benefits and retirement benefits that serve the needs of both the organization and employees while also complying with state and federal requirements.

Conducts compensation research to develop pay ranges for positions based on job responsibilities, geographic region of the position and industry of the organization, and provides analysis of pay data utilizing company benefit details, incumbent experience and the organization's pay philosophy.

Reviews and develops employment policies and/or an employee handbook specific to the client's operations while complying with state and federal employment laws.

Assists clients with unique and/or difficult employment-related situations, including FMLA, FLSA, FFCRA, ADA, EEO, performance issues, termination and paid leave.

Memberships
Society for Human Resource Management

Designation/Licensures
Professional in Human Resources

SHRM Certified Professional

Education
Bachelor of Arts, Business Administration with Human Resource Management emphasis – Boise State University, Boise, ID

Community
Jefferson High School "QB Club," Board Member

Bloomington Athletic Association Football, former Assistant Director

Bloomington Athletic Association Hall of Fame, recipient of volunteer award

Association of Accounting Administration, Past President and Membership Chairperson

University of Minnesota "Recruiter of the Year," past award recipient

DOUGLAS E SLUYK, CIA, CISA
Risk Advisory Services Manager

INSPIRATION: "Internal auditors have to provide insight and foresight, not just hindsight." Richard Chambers, Former Chairman of The Institute of Internal Auditors.

I apply this mindset to take a pragmatic approach to client needs, collaborating with stakeholders to serve as an advisor, identifying risk while defining recommendations and resolutions that compliment business objectives.

303.539.5915 | dsluyk@eidebailly.com

Doug plans, executes and manages various risk advisory services projects including: operational internal audits, SOX 404 readiness consulting engagements and compliance controls testing. He provides risk advisory services to public and privately held companies in a variety of industries, including transportation, hospitality, entertainment, manufacturing, financial services and government. Doug collaborates with business process owners as well as members of Senior Management to help identify operational and financial risks, ensure internal controls were appropriately designed to achieve control objectives, ensure control activities were carried out and provided constructive ideas for process improvement to mitigate the risks.

When you work with Doug, you can expect him to offer unique solutions based upon experience in multiple industries and perform objective, detail-orientated analysis to identify risk and understand business requirements.

Client Work
Implemented a Governance Risk and Compliance (GRC) tool to increase efficiency and effectiveness of compliance results testing and reporting.

Provided innovative and value-added audit services, assisting in the implantation of a new financial reporting system, cost savings through operational process enhancements and established department as a business advisor.

Performed a review of critical information system integrations, facilitated cross-functional discussions to communicate to ensure completeness and accuracy and ensure external audit reliance.

Performed operational audits and designed control consulting engagements for entertainment client. Requested by client senior finance leadership to lead the financial close-out and preparation of budget to actual results client largest annual event with revenues of $120M.

Developed Enterprise Risk Consulting engagements, Financial Risk Consulting engagement, Internal Audit and S-Ox plans for multiple clients and industries ranging from $500 million to $25 billion annual revenue.

Memberships
Institute of Internal Auditors

Information Systems Audit Controls Association

Designation/Licensures
Certified Internal Auditor

Certified Information Systems Auditor

Education
Bachelor of Finance—WP Carey School of Business, Arizona State University

Master of Business Administration—University of Phoenix

Community
Denver Information Systems Audit Controls Association, EVP, Rocky Mountain Information Security Conference Co-Chair

Denver Institute of Internal Auditors, Rocky Mountain Area Conference Co-Chair

NICHOLAS SIDIKOVICH, CPA

Manager

INSPIRATION: "Seek first to understand, then to be understood" is one of my favorite habits I learned early in my career through Stephen Covey's course "The 7 Habits of Highly Effective People". As such, I'm passionate about helping our clients as I understand and learn about business needs and challenges they face before I design and provide constructive recommendations for process improvements, mitigating operational and various business risks.

303.539.5929 | nsidikovich@eidebailly.com

With more than 12 years of auditing experience including Big 4 public accounting and industry experience, Nicholas provides risk advisory services to public and privately held companies in a variety of industries including oil and gas, health care and financial services. He also aids small government entities in improving business processes and creating and/or strengthening internal controls. He has an extensive experience in managing and executing SOX 404 internal controls testing as well as planning, executing and reporting on operational and compliance audits. Throughout his audit career, Nicholas has worked with business process owners as well as members of Senior Management to help identify operational and financial risks, ensure internal controls were appropriately designed to achieve control objectives, ensure control activities were carried out and provided constructive ideas for process improvement to mitigate the risks. He was involved in a process of evaluating control deficiencies and determining potential impact on the businesses.

Client Work

Assisted a state owned insurance company with assets greater than $9 billion in development and implementation of an Internal Control Framework (ICF) by independently managing business process discussions with Senior Directors of Business Divisions and Managers of various business units, reviewing business processes, creating process narratives and flowcharts, identifying key risks and key controls and recommending key controls and control activities as appropriate to strengthen and improve control environment.

Planned and executed operational and compliance audits within Corporate Accounting & Financial Reporting, Investments and Financial Services divisions.

Performed audit planning and scoping activities, assessed effectiveness and efficiency of financial and operational processes and controls and performed risk consulting engagement of operational line areas for multiple projects simultaneously.

Provided assistance in implementing Internal Control Framework and Planned and executed SOX 404 internal controls testing independently and communicated testing results to business process owners and Senior Management.

Memberships
American Institute of Certified Public Accountants

Designation/Licensures
Certified Public Accountant

Education
Master of Business Administration—University of St. Thomas, Houston

Community
UCHealth Foundations

CATHERINE VILLAMAR
Associate

INSPIRATION: I'm passionate about helping others identify and solve complex issues that arise from business and personal endeavors. Whether it's risk advisory, assurance services or consulting, I love to assist clients in finding the answers that lead to greater opportunities.

775.337.3945 | cvillamar@eidebailly.com

Cathy provides assurance, internal audit and risk advisory services in a variety of industries, including government, commercial, gaming, insurance and nonprofit organizations.

When you work with Cathy, you can expect a friendly personality and a dedication to understand your business and your goals. She strives to actively listen and understand the questions, issues, or tasks at hand. With the support of her team at Eide Bailly, Cathy is enthusiastic in her drive to deliver professional solutions to meet your business needs.

Outside of work, Cathy enjoys exploring the outdoors, traveling to new places, spending time with family and friends and volunteering in the community.

Client Work

Assisted in engagement planning; performed financial audit, review and reconciliation procedures; prepared trial balances, financial statements and audit reports for assurance clients.

Performed SOX compliance walkthroughs and test of controls in a co-sourcing capacity for an insurance firm.

Performed operational and performance audits to identify risks, evaluate control deficiencies and ensure appropriate internal controls are in place to mitigate operational and financial risks.

Performed compliance audits to ascertain adherence to regulatory guidelines, policies and procedures.

Worked on various agreed upon procedures engagements for gaming entities to test and evaluate compliance with Nevada Gaming Control Board regulations and for other commercial entities to agree and recalculate amounts relating to sales tax returns and greenhouse gas emissions.

Education
Bachelor of Science, Accounting - University of Nevada, Reno

Appendix B — Sample Reports

Human Resources & Payroll Internal Controls Assessment

September 2021

(CLIENT) CHARTER SCHOOLS

Submitted By:

Eide Bailly LLP

Doug Sluyk, CIA, CISA
Manager, Risk Advisory Services

Audrey Donovan, CIA, CGAP, CRMA
Senior Manager, Risk Advisory Services

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Executive Summary

Eide Bailly LLP ("we", "our" or "us") was engaged by (CLIENT) to conduct an internal assessment of the Human Resources and Payroll Department internal controls. Eide Bailly performed consulting services including an end to end review of processes, people, systems and related controls for each department. We worked with the Assistant Superintendent Human Resources and Assistant Superintendent Business, along with the respective Human Resources and Payroll staff.

We evaluated: 1) the adequacy of existing policies and procedures 2) the design effectiveness of internal controls, and 3) the operating effectiveness of internal controls.

The assessment identified effective controls and risks related to the processes and procedures associated with administering Human Resources and Payroll functions. We identified seven (7) observations related to improvement opportunities in addition to recommendations to enhance the controls and achieve charter objectives.

We greatly appreciate and thank the input of the Assistant Superintendents and department personnel who contributed to enhancing our understanding of internal processes.

Objective & Scope

The objective of this assessment was to evaluate (CLIENT) Human Resources and Payroll department's processes to identify exposure associated with non-compliance with current rules & regulations, specifically California Labor law including:

- Assess whether controls over Human Resources and Payroll management are designed adequately and operating effectively to ensure compliance with key federal and state regulations, as well as internal policies and procedures.

- Evaluate whether all activities performed within Human Resources are in alignment with applicable best practice and current rules & regulations.

- Gain an understanding of the efficiency and effectiveness of the Human Resource department customer service and communication with employees and departments.

The scope of the assessment included active and terminated employees within (CLIENT) for the period of July 1, 2020 – June 30, 2021 (calendar year 20/21).

We conducted this assessment in accordance with the American Institute of Certified Public Accountants' Statement on Standards for Consulting Services ("Standards") and do not constitute an examination or review of the subject matter. These standards require planning and performing the assessment to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the assessment objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the assessment objectives.

Methodology

To adequately address the assessment objectives and to describe the scope of work, we have:

- Performed a high-level review of (CLIENT) Human Resources, Payroll, and Benefits Administration processes.

- Assessed the existing policies and procedures, design of internal controls, and operation of internal controls within Human Resources and Payroll.

- Inquired with staff to assess the design effectiveness of controls and identify process flow.
- Performed controls testing to ensure completeness, timeliness, and accuracy of the following:
  - Human Resources – files are complete and accurate (i.e. - onboarding documents, evidence of payrate, rate changes, benefit elections, terminations, and separations).
  - Payroll – pay rates are documented and validated in the personnel file, bonuses and separation payouts are properly approved, documented, calculated, and maintained.
  - Benefits Administration – benefit elections are evidenced and tracked to provide transparency to employees. Procedures exist to ensure accuracy of benefits administration expense by employee, benefit type and period through reconciliations. Benefits are timely suspended or cancelled when an employee resigns or is terminated.
- Evaluated that procedures are consistent between systems to ensure data integrity and efficiencies through cross-training.
- Confirmed that access to personnel and payroll (files and systems) are adequately restricted.
- Evaluated that software systems have appropriate segregation of duties through roles and privileges.

Results of Assessment

Human Resources and Payroll Internal Controls

In our discussions with key individuals in Human Resources, Payroll, and Information Technology we concluded that internal controls are adequately designed and operating. Although the Human Resources and Payroll departments have controls in place, we have identified opportunities for improvement which are summarized within the Observations, Risks & Recommendations below.

Observations, Risks & Recommendations

We have provided seven (7) observations with corresponding recommendations within this report, which addressed will positively contribute to strengthen internal controls and administration of human resources, payroll processing, and benefits administration.
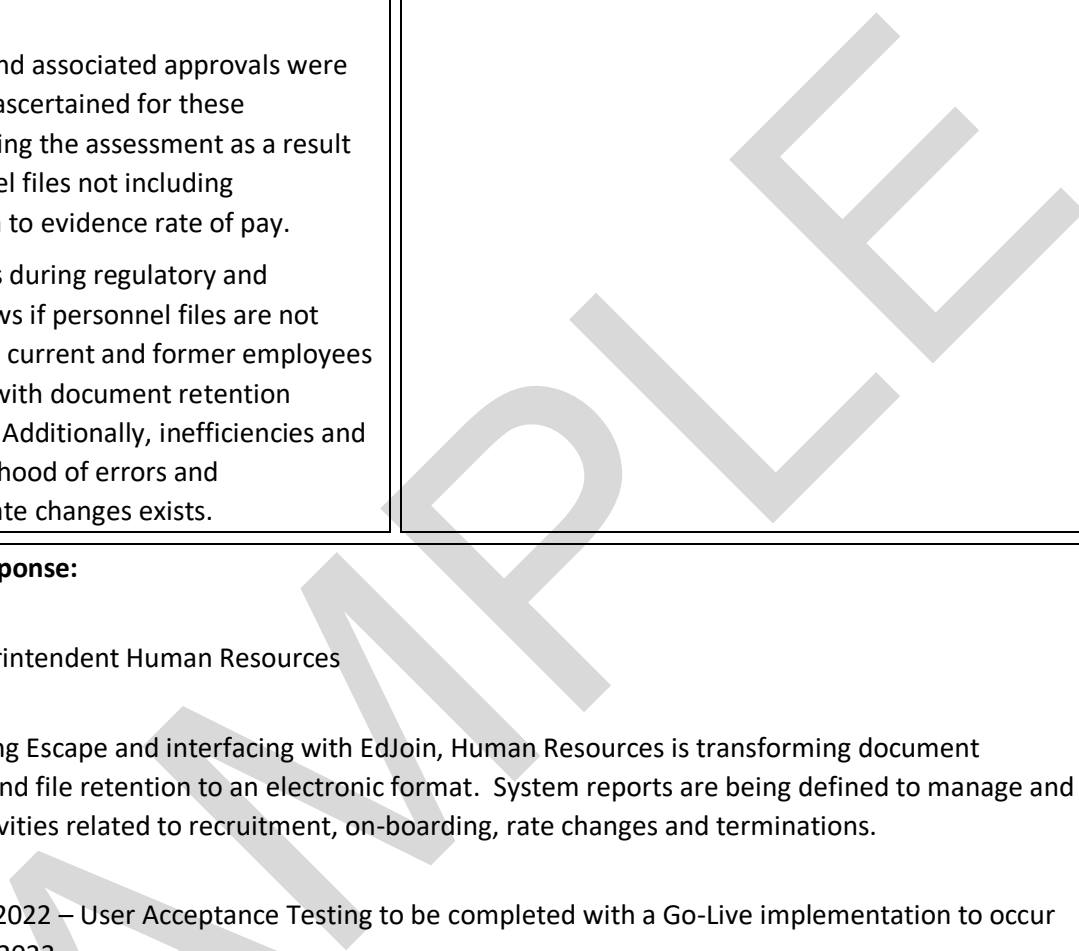
We greatly appreciate and thank the input Assistant Superintendents and the staff who contributed to enhancing our understanding of internal processes.

Observation & Risk	Recommendation
1. Lack of formalized policies and procedures within Human Resources and Payroll.	

(CLIENT) administrative employees are responsible for performing Human Resources and Payroll functions for six charters. The processes within these functions include employee on-boarding, rate changes, benefits administration, payroll, and terminations. These processes are performed within multiple systems including HR Galaxy, Escape Technology ("Escape"), and EDJOIN.

Discussions occurred with the Senior Director Information Technology who confirmed that the administrators of these systems are appropriately defined, and adequate segregation of duties exists related to the employees within Human Resources and Finance (Payroll).

Inquiry occurred with Human Resources and Payroll personnel regarding the design of internal controls and procedures related to employee on-boarding, rate changes, benefits administration, payroll processing, and terminations.

We noted varying level of procedural documentation exists amongst these processes. (CLIENT) is transitioning to Escape during 2022, initially within Human Resources followed by Finance. A committee has been established to identify the business requirements during this integration.

The lack of clearly communicated processes including identification of controls may result in inconsistent practices, errors, and poorly designed processes. | Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures.

A well-designed and properly maintained system of documenting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff and facilitate cross utilization while maintaining segregation of duties.

During (CLIENT) transition to Escape, procedures should be updated by Human Resources and Payroll users. Policy and procedures manuals should include a comprehensive list of procedures along with an indication of the employees responsible for completing the procedures. It should delineate the authority and responsibility of all employees, including review and approval procedures. The documentation of policies and procedures should explain the design and purpose of control-related procedures to increase employee understanding.

The documentation of policies and procedures should be evaluated annually and updated periodically, as necessary. It should be readily accessible to all applicable employees. |

Managements Response:

Who:

Assistant Superintendent Business, Assistant Superintendent Human Resources

What:

The Human Resources and Finance Departments are participating in defining the user requirements and identifying key processes during the transition to Escape. During these initiatives these groups have been

Observation & Risk	Recommendation
instructed to document the desk procedures to perform key tasks. A document which provides a consistent level of detail and format will be prepared by these departments to facilitate cross training, documentation of processes, and identification of controls will be prepared. We have requested an Internal Assessment be performed by Eide Bailly December 2022 to evaluate the effectiveness of policies and procedures and review internal controls, prior to the system implementation. **When:** December 31, 2022.	

2. **Manual nature of Human Resources processes including onboarding, rate changes, benefits eligibility reviews, and terminations.**

Process and procedure walkthroughs occurred to assess the internal controls within Human Resources associated with employee onboarding, rate changes, benefits eligibility reviews, and terminations. The tasks within each of these areas were observed to be very manual in the nature which they are performed. The manual nature combined with the lack of formalized procedures referred to at Observation #1, increases the likelihood of errors and insufficient supporting documentation to evidence the accuracy and completeness of these tasks. The volume of manually performed tasks, in conjunction with lack of process & procedural documentation, and not utilizing system reports, creates inefficiency and increases the risk of errors.	In conjunction with the transition to Escape and documentation of processes, including procedures and identification of control points, initiative should occur to reduce the volume of manual tasks. Automating the onboarding and offboarding process can improve the employee experience, reduce human error, preventing paperwork loss, and improving visibility of the status of the hire between departments. Additionally, managing employee benefits via a consolidated HR portal can reduce the cost of benefits administration.

Managements Response:

Who:

Assistant Superintendent Human Resources

What:

We agree with this assessment, a key objective of the transition to Escape is to reduce the volume of manual tasks and leverage the system capabilities for processing transactions. Human Resources members are working directly with Information Technology to define the current processes and identify system capabilities within Escape.

When:

December 31, 2022 – User Acceptance Testing to be completed with a Go-Live implementation to occur by January 31, 2023.

Observation & Risk	Recommendation
3. System reports are not utilized to evidence completeness and accuracy of Human Resources data.	

As summarized at Observation #2, the Human Resources functions are primarily manual processes, Excel is utilized for primary tasks, including: personnel listing, tracking rate changes, and benefits eligibility audits. These processes and utilizing Excel does not allow data integrity to be validated, including compleness and accuracy.	In conjunction with the transition to Escape and documentation of processes, including procedures and identification of control points, efforts should occur to leverage the system reports available which will result in efficiencies and increased reliance by external parties such as regulatory, audit, and litigation requests.

An Employee Listing was obtained on July 20, 2021 from the Assistant Superintendent - Personnel. This listing included:

- 918 employees, amongst 35 departments including 470 and 448 exempt and non-exempt designations respectively.

Two (2) Terminated Employee Listings were obtained on August 8, 2021 from the Director of Human Resources. These listings were for terminations which occurred during the period July 1, 2020 - June 30, 2021. The listing included:

- 169 (CLIENT) and 103 other personnel (affiliates).

Multiple requests and delays were experienced to receive both the active employee listing and terminated listings. The listings received were each in Excel format, which our testing procedures could not conclude on the completeness or accuracy. The delays in receiving the requested listings appear to be the result of the manual nature of the processes to generate such and not utilizing a single system to produce these reports.

A risk of incomplete and inaccurate data exists which system reports are not utilized including scripts to ascertain the parameters

Observation & Risk	Recommendation
which the reports are generated (i.e., date, classification).	

Managements Response:

Who:

Assistant Superintendent Human Resources

What:

We agree with this assessment, a key objective of the transition to Escape is to reduce the manual task and leverage the system capabilities for processing transactions. We recognize that data integrity and reliance will be greater achieved through utilizing the system for these key reports. Human Resources members are working directly with Information Technology to define the current processes and identify system capabilities within Escape.

When:

December 31, 2022 – User Acceptance Testing to be completed with a Go-Live implementation to occur by January 31, 2023.

4. Incomplete and Missing Personnel Files

From the Personnel Listing received referenced at Observation #3, which included 918 employees, a sample of 55 (6%) employees was selected for review procedures. Each of these selections documents were reviewed to identify the offer letter, date of hire, calculate the current rate of pay since offer letter and select a single paycheck between July 1, 2020 - June 30, 2021. Human Resources Personnel Files do not include source document to evidence current rate of pay. Five (5) personnel files could not be located during on-site field work, during follow-up the Director Human Resources was able to locate the details for four of the missing files and concluded the remaining one (1) may be in storage. Four (4) offer letters including the one (1) missing file were not within the personnel files. A subset of 10 employees were selected from the sample of 55. Inquiry occurred with the Director of Human Resources to provide evidence of the current rate of pay. The Director of Human Resources provided salary	Processes should be updated to ensure that all personnel files are available and those in archive (offsite) status should be listed on a schedule to ascertain their availability when a requirement exists. Enhancing policies and procedures, reducing manual processes, and utilizing system resources, evidence pertaining to rate of pay and applicable approvals should be available for all employees.

Observation & Risk	Recommendation
schedule and support to evidence the pay between '20/21' and '21/22'. However, the date of hire for these employees ranged from 2007 - 2018. The accuracy and associated approvals were not able to be ascertained for these employees during the assessment as a result of the personnel files not including documentation to evidence rate of pay. Exposure exists during regulatory and litigation reviews if personnel files are not available for all current and former employees in accordance with document retention requirements. Additionally, inefficiencies and increased likelihood of errors and unsupported rate changes exists.	

Managements Response:

Who:

Assistant Superintendent Human Resources

What:

Through utilizing Escape and interfacing with EdJoin, Human Resources is transforming document management and file retention to an electronic format. System reports are being defined to manage and review the activities related to recruitment, on-boarding, rate changes and terminations.

When:

December 31, 2022 – User Acceptance Testing to be completed with a Go-Live implementation to occur by January 31, 2023.

5. Lags exist between date of hire and onboarding of new employees.

Discussion occurred with the Director Human Resources regarding the on-boarding process, specifically date of hire versus orientation and onboarding. We confirmed that Human Resources has some 'Onboard Process' documentation, however the procedures are not formalized, don't reflect a revision date, and do not summarize the process in a linear order. Based on discussion with the Director Human Resources and a review of the existing procedures, the following was noted:	In conjunction with updating the policies and procedures within Human Resources addressed at Observation #1, Human Resources should assess practices to perform NHO on start date. Discussions should occur with Finance to define the process resulting in transparency and agreement on any additional payroll expense which may result from the on-boarding timing. As addressed above at Observation #4, steps should occur to ensure that all personnel files are consistent in documentation and complete.

Observation & Risk	Recommendation
• Benefit eligibility is based on the date which the new employee signed the Offer Letter. • New Hire Orientation ("NHO") pay: Salaried Personnel are paid a daily rate of pay and Hourly are paid up to four (4) hours for their rate of pay. A known issue presented by the Director Human Resources is that additional days at daily rate of pay is required for Salaried employees based on the days between the NHO and start date. In conjunction with the missing Offer Letters referenced at observation #4, an assessment of all offer letters versus start dates was not able to be completed. Of the remaining Offer Letters reviewed, four (4) employees Offer Letter Date was later than the effective start date. Additional payroll expense result when delay occur between NHO and Start Date for salaried employees. Additionally, exposure exists related to regulatory reviews where offer letters do not precede effective start date.	

Managements Response:

Who:

Assistant Superintendent Human Resources, Assistant Superintendent Business

What:

Human Resources and Payment management are coordinating to identify a workflow which will minimize the delays between offer letter and on-boarding. The revised procedures will be incorporated into the updated Policies and Procedures addressed at observation #1.

When:

June 30, 2022 – identify new processes

December 31, 2022 – incorporate into updated policies and procedures.

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6. Termination processing delays resulting in additional days paid to employees.

We were unable to conclude on the completeness and accuracy of the ten (10) employees selected from the (Client)	In conjunction with updating the policies and procedures within Human Resources addressed at Observation #1, and automating processes at

Observation & Risk	Recommendation
Terminated Employee listings as documented at Observation #3. Inquiry occurred of the nature of the termination (voluntary, involuntary), final paycheck requirement (+72 hours, last day), date the change occurred in the system, date which payroll was advised, final paycheck date & amount. Three of the selections had waiting pay as a result of either late notice from supervisor, incomplete information provided by Human Resources to Payroll, or incorrect address on file. Untimely and incomplete termination information exchanged between Human Resources and Payroll may result in additional payroll expense through providing the employee 'waiting pay' compensation.	Observation #2, processes should be strengthened to ensure that termination information is timely, complete and mitigates the risk of additional expense related to 'waiting pay'.

Managements Response:

Who:

Assistant Superintendent Human Resources, Assistant Superintendent Business

What:

Human Resources and Payment management are coordinating to identify a workflow which will minimize the delays between termination date and final paycheck issuance. The revised procedures will be incorporated into the updated Policies and Procedures addressed at observations #1, #2.

When:

June 30, 2022 – identify new processes

December 31, 2022 – incorporate into updated policies and procedures.

7. Employee Paychecks do not reflect individual benefit elections by amount.	
From the Personnel Listing received referenced at observation #3, which included 918 employees, a sample of 55 (6%) employees was selected for review procedures, for which a single pay statement between July 1, 2020 - June 30, 2021 was obtained. A review occurred to ensure compliance with the requirements related to Providing Accurate Written Wage Statements and Timely Pay Wages, as summarized in the Spivak Law, May 6, 2020 correspondence.	Human Resources and Payroll should evaluate the ability to provide a breakout of deductions for benefit elections to align with the descriptions and amounts listed within the (CLIENT) Benefit Guide.

Observation & Risk	Recommendation
No exceptions were noted in the pay statements related to accuracy as each included: 1) gross wages earned, 2) total hours worked by the employee, 3) number of piece rate units, 4) deductions, 5) net wages earned, 6) inclusive dates for the period which the employee is paid, 7) name and last four digits of social security, 8) name and address of employer, and 9) all applicable hourly rates during the period. No exceptions were noted related to the timely payments. An opportunity to provide greater service and transparency to employees exists related to benefit deductions. It was noted that benefit deductions are not broken out by detailed deduction for the benefit elections. This may result in confusion and inability for the employee to ascertain the accuracy of their elected benefit deductions. A standard practice is to summarize benefit deductions on the pay statement. Increased customer service to employees may result from greater detail on the pay statement pertaining to these deductions.	

Managements Response:

Who:

Assistant Superintendent Human Resources

Assistant Superintendent Business

What:

Human Resources and Payroll have communicated this with the Information Technology team leading the configuration of Escape's business requirements. We have developed a means to track End User and Customer Business Needs to ensure that these identified, actioned, and resolved.

When:

December 31, 2022 – User Acceptance Testing to be completed with a Go-Live implementation to occur by January 31, 2023

HR Administration – Eligible Employee Group Insurance
Internal Audit Report
December 3, 2019

Carson City, Nevada

Submitted By

Eide Bailly LLP

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Executive Summary

Eide Bailly LLP performed an internal audit over Carson City's (the "City") Human Resources (HR) health benefits administration for the period of January 1, 2019 through the audit date November 22, 2019. The internal audit focused on HR's administrative practices, the key features and costs of the City's medical benefit plans, HR's process for determining employee enrollment and eligibility, and HR's payments to providers.

During the internal audit, it was noted that the Human Resources Director and staff were very knowledgeable about their processes and procedures and attentive to any improvements that may be needed.

During our review, we identified four (4) recommendations that would improve the City's administration of health benefits.

Background

As it pertains to the administration of group health benefits, all classified, unclassified, and elected City employees shall have the benefit to participate in the City group health insurance program. The City has a fully-insured health plan[1], procured through the City's insurance broker, LP Insurance Services.

Plan providers are as follows:

- **Hometown Health** – group health insurance provider and prescription drug coverage
- **Anthem Blue Cross Blue Shield** – dental and life coverage
- **EyeMed** – vision coverage
- **Aetna** – employee assistance program
- **HR Simplified** – COBRA

The City has recently changed their health benefits provider for fiscal year 2020. This was a result of the City's previous plan provider increasing rates by 5%. The City's insurance broker solicited quotes from the health insurance market. The City agreed that Hometown Health would be the best carrier to achieve their financial goals and provide the best experience for the employees. The City approved this agreement in April of 2019.[2] The City has since seen a decrease in policy premiums at the beginning of Fiscal Year 2020 when they switched over to Hometown Health as their new provider (see **Appendix A** for a month over month comparison of their Medical & Pharmacy Performance).

City employees are eligible to participate in the plans listed above on the first of the month after sixty (60) days of continuous full-time employment (i.e. for an employee hired on October 5, 2019, his or her benefit coverage would be effective as of January 1, 2020). Status changes can be requested during open enrollment or special

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[1] The City has decided to purchase a fully-insured health plan based on cost benefit analysis. It was determined that fully-insured costs less than what the City would pay to operate their own self-funded plan based on the current claim loss ratio of approximately 90%. Additionally, self-funding comes with considerable additional risks.

[2] Dental and life coverage were not marketed because the Board approved an agreement with Anthem in the previous fiscal year that gave the City a two-year rate guarantee. Vision coverage was not marketed because the Board approved an agreement with EyeMed in 2017 that gave the City a four-year rate guarantee.

enrollment period.[3] City employees who elect to waive health coverage are entitled to a one-time incentive payment of $1,200 less applicable withholdings.

Eligibility to participate in health benefits is identified by Human Resources. Once enrolled, health benefits and claim management are 100% handled by the plan provider.

Objective & Scope

The objective of the audit was to determine whether Human Resources has adequate controls over health benefits administration to ensure that health benefit premiums are calculated and paid accurately for eligible active employees in accordance with policies and procedures, and the City follows healthcare provider agreements.

Specifically, we evaluated:
1) HR's administrative practices
2) The key features and costs of the City's medical benefit plans
3) HR's process for determining employee eligibility and enrollment
4) HR's payments to providers

Claims Management was scoped out of the audit as HR does not have any involvement with claims management; all claims are handled by the provider.

The scope of the audit was from January 1, 2019 through November 22, 2019.

Methodology

Procedures performed during this internal audit included the following:

- Interviewed selected Human Resource and Finance Department staff to obtain an understanding of the employee health benefits administration process. The following personnel were interviewed:
  - Melanie Bruketta – Human Resources Director
  - Jacque Cassinelli – Human Resources Generalist
  - Jamie Stevenson – Accounting Manager (Finance and Payroll)
- Reviewed all operational policies, procedures, manuals, and handbooks for administering employee medical benefits.
- Obtained and evaluated group health plans and associated contracts.
- Examined whether health care plan vendor contracts are routinely reviewed for performance, customer service, and cost-benefit analysis.
- Determined whether the City has stop loss insurance and premium stabilization reserve.
- Verified that supporting documentation for employees enrolled in the City's health benefit plans are maintained.
- Verified that supporting documentation for dependent eligibility are maintained.

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[3] Special enrollment period is a thirty (30) day period immediately following a qualifying life event during which an eligible individual may enroll in a plan. A qualifying life event are those events that occur during an individual's life that would allow them to enroll in a plan outside of the open enrollment period.

- Obtained and evaluated whether all new hires have been added to the City's payroll system and enrolled in medical benefits, including life insurance, timely, completely, and accurately.

- Obtained and evaluated whether all eligible changes impacting employee benefits have been added to the City's payroll system and updated in medical benefits, including life insurance, timely, completely, and accurately.

- Obtained and evaluated whether all terminations, separations, and leave of absences impacting benefits have been added to the City's payroll system and medical benefits updated, including life insurance, timely, completely, and accurately.

- Conducted an analysis on employees and their dependents to determine whether any City employees are simultaneously receiving benefits as an employee and a dependent of a city employee resulting in city-provided redundant coverage.

- Reviewed Human Resources and Payroll duties and responsibilities to ensure that there is proper segregation of duties.

- Inquired about plan management relating to the existence and frequency of participant complaints.

Audit Results

Eide Bailly evaluated the adequacy of HR's administrative practices related to employee benefits and its process for determining employee enrollment and eligibility by performing the following procedures:

- **Compliance**

  Eide Bailly obtained and reviewed applicable regulations, policies, and procedures pertaining to employee benefits. No instances of non-compliance were noted. Additionally, we performed an analysis on enrolled employees and their dependents and determined that there were no existing redundancies in coverage.

- **Segregation of Duties**

  Eide Bailly reviewed Human Resources and Payroll duties and responsibilities and noted that appropriate segregation of duties are in place. Controls are in place for processing new enrollments, benefit status changes, and termination / separation of benefits.

- **Contract Monitoring**

  Eide Bailly evaluated the City's group health plans and identified that their contracts are routinely reviewed for performance and cost-benefit analysis by the insurance broker to ensure quality of service and competitive premium rates. The broker also solicits proposal from various insurance carriers in the market and reviews them to determine which carriers will best meet the needs of the City's employees and financial goals. These plans are fully insured and as such, the broker works within the confines of the fully insured regulatory landscape.

- **Record Retention**

  Eide Bailly verified that the City maintains all new hires, eligible changes, terminations, separations and leave of absence records. New hire, status changes, termination and separation documentations are filed with the respective employee records which are maintained in individual file folders stored in an unlocked, revolving file cabinet within the Finance Department (see **Finding #1** below). Leave records are stored in a locked filing cabinet inside the Human Resources office. Lastly, dependent eligibility documents are stored in a locked room, separate from where the leave records are stored inside the Human Resources office.

Findings & Recommendations

While the procedures performed indicate that controls are operating as designed, we noted four (4) findings and recommendations to assist Human Resources and the City in strengthening internal controls related to the administration of employee health benefits.

Finding #1: (Finance Department)

Employee and benefit documents are entirely paper based with sensitive and personally identifiable information accessible by any employee in the Finance department. Keeping physical documentation poses risks of inefficiency, increased costs, and are more prone to being misfiled, misplaced, or damaged.

Recommendation #1:

The City should adopt an online-based data management system for employee and benefit documents. Moving to this type of system would improve efficiencies by providing more flexible, secure document retention, reducing costs, is environmentally sustainable and would streamline the enrollment process especially during the busy open-enrollment period.

In the interim, the employee files should be kept in a locked and secure location that is limited to those individuals whose job responsibilities require access.

NOTE: The Finance Department is scheduled to have a new ERP system (MUNIS) launched in early 2020. The functionality of the system has not yet been fully identified during the audit.

Department Response:

Currently the Finance Department keeps copies of status change forms, W-4 forms and other payroll related information. These files do contain limited protected information. For the 1st pay period in January we are implementing a new ERP System, each employee will have an on-line file. Forms that Finance needs will be created in electronic format, approved in electronic format and saved/stored in the electronic employee file. We are definitely considering scanning in current employee data now in the files so that all the employee data is in the new system. This will very likely take six months to a year to accomplish. The files are stored past the finance reception desk; therefore, if someone did walk in and start poking around, we would certainly notice and stop them immediately. We do keep the cabinet closed most of the time, but not locked. We have a key to the cabinet and will lock it when we are not accessing this information; until such time as we no longer need the cabinet.

Finding #2: (HR)

HR benefits administration process is manual, and documentation is entirely paper based. Keeping physical documentation poses risks of inefficiency, increased costs, and are more prone to being misfiled, misplaced, or damaged.

Recommendation #2:

The City should consider adopting an online-based data management system for employee and benefit documents. Moving to this type of system would improve efficiencies by providing more flexible, secure document retention, reducing costs, is environmentally sustainable and would streamline the enrollment process especially during the busy open-enrollment period. If this is not immediately possible, an email-based process should be implemented.

NOTE: The HR Department is scheduled to have a new ERP system (MUNIS) launched in early 2020. The functionality of the system has not yet been fully identified during the audit.

Department Response:

As noted in the finding, HR is exploring the possibility of moving to an online enrollment system. The program that will be vetted is the Tyler ERP System called Employee Self-Service (ESS). ESS has been implemented, but the health insurance enrollment module has not been evaluated. HR staff is scheduled to evaluate the program and will consider security risks and make a determination if the use of the program will in fact create more efficiency by reducing costs and saving time. The auditors did not find any errors regarding misplaced, misfiled, or damaged enrollment forms. Employees have not complained about the process currently in place. Again, HR staff will evaluate electronic programs and decide best when to proceed. The ERP module will be evaluated in the spring of 2020.

Finding #3: (HR)

Procedures on how to obtain and submit forms for benefit enrollment and status changes are not clearly documented and readily available for benefit participants to access on their own without additional interaction with the HR Department.

Recommendation #3:

The City should establish a process and written procedure allowing benefit participants a self-service approach for relevant HR benefit related forms to include new enrollment, enrollment changes, eligibility documents, etc.

Department Response:

The auditors suggested adding language to the current Benefit Policy that states that employees have thirty (30) days to notify Human Resources of a qualifying event. That language has been added to the policy. This update has been submitted to the City Manager's office and should be approved by the end of the month. Relevant enrollment forms will be added to PolicyTech as well.

Finding #4: (HR)

There is no clear policy regarding employees simultaneously receiving City-provided benefits as an employee and a dependent of a City employee or retiree.

Recommendation #4:

Verbiage should be added to the applicable HR benefit policies and the employee benefit packet that specifically states, "An employee may not be simultaneously covered by City-provided medical benefits as a City employee and as a dependent of another City employee or retiree."

Department Response:

Suggested statement has been added to the HR Policy. This update has been submitted to the City Manager's office and should be approved by the end of the month.

Appendix A: Medical & Pharmacy Performance

									Rolling 12 Months - Current
Month/ Year	Subscribers	Members	Policy Premium	Subscribers Composite Premium	Medical Claims	Rx Claims	Total Claims	Subscriber Composite Claims*	Paid Loss Ratio
Nov-18	711	1,413	$648,201	$912	$352,230	$167,289	$519,519	$731	80%
Dec-18	717	1,422	$650,996	$908	$447,300	$144,304	$591,604	$825	91%
Jan-19	720	1,434	$653,639	$908	$447,701	$135,840	$583,541	$810	89%
Feb-19	719	1,429	$650,024	$904	$676,098	$152,483	$828,581	$1,152	127%
Mar-19	718	1,432	$649,450	$905	$383,050	$159,722	$542,772	$756	84%
Apr-19	717	1,429	$648,732	$905	$667,376	$136,473	$803,849	$1,121	124%
May-19	720	1,437	$652,385	$906	$493,594	$146,492	$640,086	$889	98%
Jun-19	719	1,438	$652,371	$907	$415,840	$133,166	$549,006	$764	84%
Jul-19	717	1,431	$616,149	$859	$44,617	$40,430	$85,047	$119	14%
Aug-19	718	1,435	$623,641	$869	$182,772	$101,390	$284,162	$396	46%
Sep-19	721	1,452	$617,286	$856	$277,976	$94,484	$372,460	$517	60%
Oct-19	721	1,457	$627,764	$871	$363,892	$91,343	$455,235	$631	73%
Total	8,618	17,209	$7,690,638	-	$4,752,446	$1,503,415	$6,255,861	-	81%
Average	718	1,434	$640,886	$892	$396,037	$125,285	$521,322	$726	81%

									Rolling 12 Months - Prior
Month/ Year	Subscribers	Members	Policy Premium	Subscribers Composite Premium	Medical Claims	Rx Claims	Total Claims	Subscriber Composite Claims*	Paid Loss Ratio
Nov-17	705	1,409	$644,498	$914	$529,742	$122,458	$652,200	$925	101%
Dec-17	709	1,417	$647,944	$914	$493,119	$138,767	$631,886	$891	98%
Jan-18	712	1,426	$652,018	$916	$342,813	$128,008	$470,821	$661	72%
Feb-18	712	1,421	$648,843	$911	$304,172	$137,279	$441,451	$620	68%
Mar-18	718	1,424	$650,987	$907	$429,477	$155,606	$585,083	$815	90%
Apr-18	721	1,435	$654,867	$908	$377,501	$94,492	$471,993	$655	72%
May-18	717	1,439	$656,698	$916	$342,868	$151,410	$494,278	$689	75%
Jun-18	716	1,432	$655,688	$916	$723,757	$170,547	$894,304	$1,249	136%
Jul-18	713	1,426	$650,258	$912	$330,432	$125,789	$456,221	$640	70%
Aug-18	713	1,435	$652,509	$915	$491,882	$162,541	$654,423	$918	100%
Sep-18	710	1,424	$648,328	$913	$301,221	$142,642	$443,863	$625	68%
Oct-18	709	1,409	$646,013	$911	$323,122	$176,295	$499,417	$704	77%
Total	8,555	17,097	$7,808,651		$4,990,106	$1,705,834	$6,695,940		86%
Average	713	1,425	$650,721	$913	$415,842	$142,153	$557,995	$783	86%
									95%

Current / Prior	Subscribers	Members	Policy Premium	Subscribers Composite Premium	Medical Claims	Rx Claims	Total Claims	Subscriber Composite Claims*	Paid Loss Ratio
Average	718	1,434	$640,886	$892	$396,037	$125,285	$521,322	$726	81%
Average	713	1,425	$650,721	$913	$415,842	$142,153	$557,995	$783	86%
Changes:	0.7%	0.7%	-1.5%	-2.2%	-4.8%	-11.9%	-6.6%	-7.3%	-5.1%

Underwriting Loss Ratio, Including Capitated Claims Est., Starting Point before Large claim Exceptions	84%

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And, most of all, enjoying our jobs ... and having fun!

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LACERA

October 13, 2021

TO: 2021 Audit Committee
        Joseph Kelly, Chair
        Shawn R. Kehoe, Vice Chair
        Vivian H. Gray, Secretary
        Alan J. Bernstein
        Keith Knox
        Ronald A. Okum
        Gina V. Sanchez

        Audit Committee Consultant
           Robert H. Griffin

FROM: Richard P. Bendall
        Chief Audit Executive

        Christina Logan
        Principal Internal Auditor

FOR: October 21, 2021 Audit Committee Meeting

SUBJECT**: Recommendation Follow-Up Report**

During the audit process, Internal Audit may identify findings or make recommendations to address risks or improve a process. The responsible division manager and Assistant Executive Officer review the findings and recommendations, and then the division manager provides management responses indicating how and when planned improvements will be made. These findings, recommendations, and Management's responses are documented in our Findings Disposition Report (FDR) and included in the audit report.

The Institute of Internal Auditors' (IIA) Performance Standard 2500 requires the Chief Audit Executive (CAE) establish and maintain a follow-up process to monitor and ensure recommendations have been effectively implemented or executive management has accepted the risk of not addressing the finding.

Internal Audit tracks all recommendations through TeamMate, our audit management software, and follows up with Management to ensure recommendations are being addressed. Internal Audit is responsible for ensuring that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, ensures that Management remains aware of the risks it has accepted by not taking action. On a quarterly basis, Internal Audit reports the status of all outstanding audit recommendations to the Audit Committee (Attachment A).

A breakdown of outstanding recommendations by Division is represented in the following matrix with activity since July 1, 2021 through September 30, 2021.

	Benefits	FASD	Inv	QA	Systems
Beginning of FY	9	2	2	6	8
New	0	0	0	0	0
Accepts Risk	0	0	0	0	0
Implemented	-3	0	0	0	0
Report 9/30	**6**	**2**	**2**	**6**	**8**

The aging of recommendations is based on the date of the audit report through the end of the reporting period. The current aging is reflected in the following color-coded chart:

	< 1 Year	> 1 Year	> 2 Year	> 3 Year	Implemented Since Last AC Meeting
	11	7	6	0	3

The chart below presents this same aging of current outstanding recommendations by division:
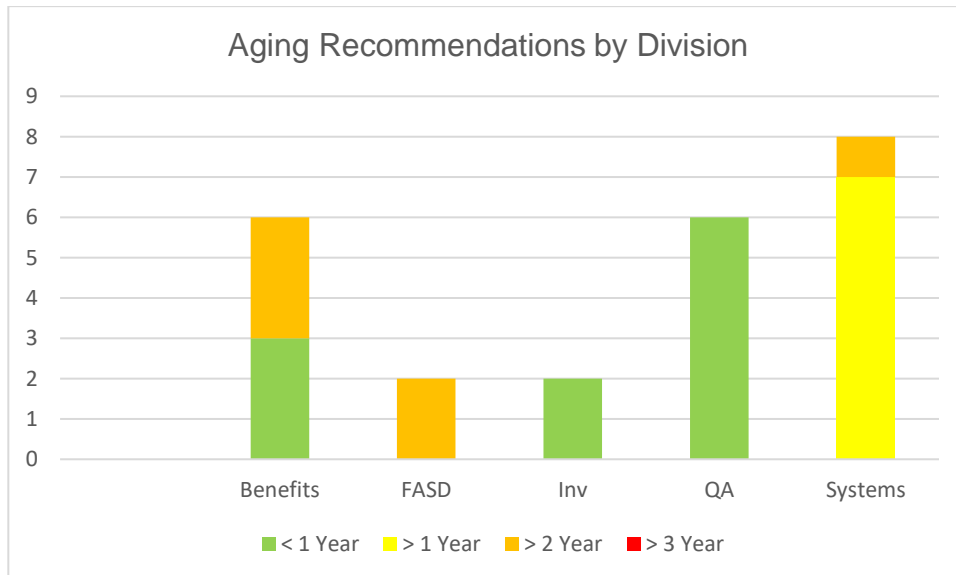
Staff from the respective divisions will be present at the October 21, 2021 Audit Committee meeting to address any questions.

RPB:cl

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Benefits Division						
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	Benefit exception reports data lacked completeness, accuracy and usefulness	Implement a consistent process to evaluate exception reports data for completeness, accuracy, and usefulness	Management agrees with the recommendation and will establish a system for routinely reviewing, and as needed, modifying systems-generated exception reports used by the Benefits Division. The Benefits Process Management Group will work in conjunction with LACERA's Compliance Office and Systems to address this challenge within the framework of LACERA's Compliance Program and LACERA's strategic vision. Management anticipates completing an evaluation of the key exception reports by June 30, 2020. Management also anticipates performing an ongoing analysis of exception reports as part of a future project to reengineer the application that produces the exception reports. The project is currently in the planning stage and is part of LACERA's long-term strategic plan.	6/30/2020 12/31/2020 5/31/2021 **Approved 2nd Extension 12/31/2021**	**ON TRACK - Approved 2nd Extension** In June 2021, Management requested and was granted an extension request until December 31, 2021. In September 2021, Management confirmed they are on track to implement the recommendation.
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	Management should assess the associated risks and liabilities to LACERA if reports are not reviewed	Establish a System for Managing the Exception Reports	Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Management anticipates completing this recommendation by June 30, 2020.	6/30/2020 12/31/2020 5/31/2021 **Approved 2nd Extension 12/31/2021**	**ON TRACK - Approved 2nd Extension** In June 2021, Management requested and was granted an extension request until December 31, 2021. In September 2021, Management confirmed they are on track to implement the recommendation.
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	Management should review the record retention process in the Report Control Center (RCC)	Enforce LACERA's Document Retention Policies in the Report Control Center (RCC)	Management agrees with the recommendation and will enforce LACERA's document retention policies in the Report Control Center (RCC). Management has instructed staff to work with the Records and Information Management (RIM) Unit to compile an inventory of all stored reports by December 31, 2019 and destroy reports no longer needed by March 31, 2020.	6/30/2020 12/31/2020 5/31/2021	**IMPLEMENTED** Document retention has been enforced. All reports no longer needed and prior to December 31, 2019 have been destroyed. Date of implementation August 23, 2021
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	The administrative process for deleting obsolete or invalid exception reports requires improvement	Implement a formal periodic review process to evaluate exception reports data and recipients	Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Management anticipates defining the review process, policy and procedures, as well as implementing this recommendation by June 30, 2020. Current Status:	6/30/2020 12/31/2020 5/31/2021 **Approved 2nd Extension 12/31/2021**	**ON TRACK - Approved 2nd Extension** In June 2021, Management requested and was granted an extension request until December 31, 2021. In September 2021, Management confirmed they are on track to implement the recommendation.
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	Management should assess the administrative and resource costs to LACERA for expenses related to managing the exception reports process	Limit all Hard Copy Reports to Electronic Copy	Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Benefits management anticipates completing an evaluation of the hard copy exception reports and Systems management has confirmed it is ready to convert those reports to electronic copies at the direction of Benefits by June 30, 2020.	6/30/2020 12/31/2020 5/31/2021	**IMPLEMENTED** Printing has been turned off for all reports. All reports are currently being sent electronically. Date of implementation June 24, 2021.

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Low	No Documented Policy or Procedure for Six of the Nine Work Queues	For the six queues that have no documented policy or procedure, we recommend management implement policies and/or procedures for the related processes.	The Benefits management agrees with the recommendation and has continued its efforts to develop policies and procedures for the remaining queues. The existing methods are currently under review to identify further development of the processes involved with the work queues, and any new methods will be incorporated into the policies and procedures.	1/29/2022	**ON TRACK** In September 2021, Management confirmed they are on track to implement this recommendation by 1/29/2022.
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	Workspace does not provide automated case tracking for pending death cases	As of March 2020, the Case Management project is one of the organization's "top four Strategic Plan goals" with a workgroup meeting regularly to move the project forward. The workgroup has identified 23 processes, one of which is death processing that would address this risk. We recommend Benefits Management work with the Executive Office and the Systems Division to develop a plan and timeline to address the implementation of the death processing through the Case Management project.	The Benefits management agrees with a recommendation to work with the Executive Office and Systems Division to develop a plan and timeline by July 29, 2021.	7/29/2021 **Approved Exntension 12/31/2021**	**ON TRACK - Approved Extension** In July 2021, Management requested and was granted an extension until December 31, 2021. In September 2021, Management confirmed they are on track to implement the recommendation by 12/31/2021.
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	No Criteria for Determining Unclaimed Accounts	We recommend management implement a procedure, which includes criteria to determine when an account is to be labelled as an "unclaimed account" and locked	The Benefits management agrees with this recommendation. They will address the resolution of this recommendation in three phases: Phase I: As an immediate remedy, Benefits will work with Systems to identify all unlocked, deceased accounts that remain for more than a year and lock the accounts. March 31, 2021 Phase II: Benefits will work with PMG to draft business rules for when these accounts should be locked. May 1, 2021 Phase III: Benefits will work with Systems to create an automated process to lock the accounts. July 29, 2021	7/29/2021	**IMPLEMENTED** Phase I and II were implemented. Per discussion with CAE and Executive Office, Phase III's automation was not required as part of the recommendation.
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	Service Level Expectations Do Not Effectively Manage Workloads	We recommend the Benefit's Division Process Management Group (PMG) coordinate the determination of organizationally accepted and agreed-upon service level expectations (SLEs) for death and legal processing between Member Services and Benefits.	The Benefits management agrees with the recommendation. The Benefits management agrees to work with PMG and Member Services management to draft a proposal to the Executive Office for adoption that includes the following: 1) Agreed upon SLEs for both sub-processes and in aggregate that can be communicated by Member Services per the Operating Instructions (OI). 2) A policy and procedure outlining a scheduled review of the SLE to ensure they are relevant and appropriate.	7/29/2021 **Approved Extension 3/31/2022**	**ON TRACK - Approved Extension** In July 2021, Management requested and was granted an extension until December 31, 2021. In September 2021, Management confirmed they are on track to implement the recommendation by 3/31/2022.

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Financial & Accounting Services Division (FASD)						
Board & Staff Education and Travel 2019 18 June 20, 2019 Not Used At Time Of Audit	Not used at time of audit	FASD Does Not Have Complete Files for Each Travel Event	6b. Explore Travel Solutions	Management concurs with the recommendation. FASD held preliminary discussions with the Systems Division and the Executive Office to evaluate the feasibility of implementing a travel receipt capture and storage tool.	6/30/2020 9/30/2020 12/31/2020 **Approved Extension Date 9/30/2021**	**ON TRACK - Approved Extension** FASD reported they were on track in September 2021 to complete this recommendation.
Board & Staff Education and Travel 2019 18 June 20, 2019 Not Used At Time Of Audit	Not used at time of audit	Accuracy of Quarterly Travel Reports	7b. Instructions to Travelers & Explore A Travel Solution	Management agrees with the recommendation. FASD will provide instructions for complete travel files to travelers. In addition, FASD held preliminary discussions with the Systems Division and the Executive Office to evaluate the feasibility of implementing a travel receipt capture and storage tool.	6/30/2020 9/30/2020 12/31/2020 **Approved Extension Date 9/30/2021**	**ON TRACK - Approved Extension** FASD reported they were on track in September 2021 to complete this recommendation.

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Investments Division						
THC Stale Check Review 2021 47 June 15, 2021 Unsatisfactory	High	Inadequate controls over the THC check process allowed 104 checks to go stale	The Investment Office should: 1. Formalize and document procedures for receiving, tracking, and depositing checks, including appropriate levels of supervision and segregation of duties.	The Investment Office agrees to both the finding and recommendation. 1. The Investment Office has changed many of its check receiving and sending procedures, ensuring segregation of duties and accountability. Investments is also working with LACERA divisions to improve the process and document procedures and internal controls so that checks are deposited in a more timely manner. A check's typical life cycle within LACERA starts with receipt by the mailroom who then (i) forwards it either to Investments or Legal or (ii) retains it for Administrative Services and logs it into a master check log. Checks in this log are reviewed and dispositioned by Administrative Services, Investments, Legal, and FASD. In the next 30 days, the Investment Office will lead an inter-divisional meeting to evaluate existing check deposit procedures and together identify areas of further enhancement.	9/30/2021	**ON TRACK**
THC Stale Check Review 2021 47 June 15, 2021 Unsatisfactory	High	Inadequate controls over the THC check process allowed 104 checks to go stale	The Investment Office should: 2. Address the remaining stale checks by: a. logging and recordings the status of each check until new checks are received and deposited or written off as a loss of funds, b. performing a monthly review by Real Estate team management of the Stale Check Summary Log and the status of efforts made to obtain reissued checks and the determination of checks that are uncollectable for write-off, and c. dispositioning uncollectable checks with the Executive Office to determine appropriate reporting.	The Investment Office agrees to both the finding and recommendation. 2. The real estate team continues to work diligently to resolve all 104 of these checks. Many of them have already been deposited. a. As of 6/10/21, 46 checks totaling $180,498 have been deposited, 58 checks totaling $88,034 are still in progress, and none have been deemed unrecoverable. b. Members of the real estate team and its management meet weekly to review the status of pending and reissued checks. Checks in progress that are being reissued by state or local governments can take up to 24 months. c. Staff will provide quarterly updates to Investment Office Management, Executive Office, and Internal Audit division.	6/30/2023	**ON TRACK** Reissuing checks can take up to two years.

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Quality Assurance (QA) Division						
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #1 - The QA Division's independence is weakened when reporting to the same AEO over the operational areas in which they perform quality assurance audits.	Develop a plan and timeline for a) relocating training and metrics out of the QA Division to an operational division, and b) changing the reporting structure such that the QA Division reports independently to the Administrative AEO.	QA Management agrees with the recommendation. QA Management agrees that greater separation between the operations of the MOG and the QA Division will enhance the inherent objectivity and independence of the QA Division. QA Management will work with the Executive Office to develop a transition plan, including a timeline, to achieve greater separation while promoting and maintaining the synergy and efficiency of both the MOG and QA. To do this, we anticipate that the plan will coincide with a plan to move the Process Management Group (PMG) out of the Benefits Division, and must include the infusion of adequate staffing and tools into the QA Division and MOG operations so that the coordination and capacity of the two groups does not suffer. Such an increase requires analysis and metrics, which are currently being developed, as well as the support of LACERA's Board of Retirement. We anticipate that this plan, which will include a process for gathering support for metrics, can be drafted by October 31, 2021.	10/31/2021	**ON TRACK** In October 2021, Management reported this recommendation is on track to be completed on time.
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #2: The current inline audit process commingles operational supervision with the QA Division's audit work and compromises the accuracy of results.	Separate the inline quality auditing & ensure independent classic audit transactional findings and accuracy information are reported regularly	QA Management agrees that a clear separation must exist between the audit work performed by Quality Auditors and the MOG Divisions.	6/30/2021	**MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION**
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	High	Finding #3 - QA management does not modify its quality assurance audit approaches based on changing risks.	Develop an annual risk assessment and a risk-based process for developing their QA audit plans	The risk-based procedures are in development and will be completed and applied to the first Benefits process, which is the Retirement process, by June 30, 2021. The procedures will be applied to every Benefits process that QA staff audits at least annually. This approach will involve an annual risk assessment involving both the MOG Division and QA Division, which will provide a formal recommendation to QA Division Management and the Executive Office for their approval.	6/30/2021	**MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION**

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	High	Finding #4: Transactional findings issued by Quality Auditors from the classic (post-completion) quality assurance audits are not addressed in a timely manner.	Enhance reporting and follow-up on transactional findings based on their Classic Quality Assurance Audits	QA Management agrees with the recommendations. In this regard, QA has implemented the following measures: QA has established a new protocol for the communication and resolution of QA Audit findings, which may be essential to the audited transaction (i.e., an Audit Action Item) or peripheral to the transaction (i.e., a QA Referral). This protocol defines the manner of communication, as well as the parties included in the communications, the roles of those responsible for resolving and monitoring these findings, and the timeframes for each communication step. QA, the audited MOG teams, and the Executive Office meet multiple times a month to review the aging of outstanding Audit Action Items for purposes of resolving them. By June 30, 2021, QA will have implemented a monthly reporting function for reporting both Audit Action Items and QA Referrals to Division Management and the Executive Office. QA will also have a plan to report on the status of outstanding Audit Action Items and QA Referrals on a semi-annually basis to the Operations Oversight Committee.	6/30/2021	**MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION**
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #5 - QA management does not have a process for following up and ensuring the implementation of process improvement opportunities reported to the Benefits Division	Enhance the reporting and follow-up on process or procedural findings	By June 30, 2021, QA will draft a formal reporting and follow-up system for its procedural recommendations to the MOG Division Management related to their operations. To enhance the reliability of this system, it will include periodic status updates to the Division Manager and Executive Office, as well as LACERA's Operations Oversight Committee.	6/30/2021	**MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION**
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #6: QA management does not have an annual quality assurance audit plan and does not have metrics and KPIs for managing their staff's work.	Develop an annual Quality Assurance Audit Plan and Key Performance (KPIs)	QA Management agrees with this recommendation. QA will immediately use existing metrics tools and implement its own KPIs, which will be monitored and reported monthly to Management at the Division and Executive levels and semi-annually to the Operations Oversight Committee. This will be implemented by June 30, 2021.	6/30/2021	**MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION**

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Systems Division						
Member Applications Change Control 2018 49 Oct 30, 2018 Not Used At Time of Audit	Not used at time of audit	Monitor or detect changes to application code deployed to the production system	Monitor or detect changes to application code deployed to the production system	Initial Management Response: We plan to develop a system generated Deployment Monitoring Report that will identify any instances when code is deployed into production. Management plans to complete an analysis and evaluation to determine if feasible based on current project priorities and resources. This evaluation is planned for completion by the end of June 2019, and if feasible will be planned for implementation by the end of December 2019.	12/31/2020 3/30/2021 **Approved 2nd Extension 12/31/2021**	**ON TRACK - Approved 2nd Extension** Systems has implemented a manual process to ensure that application code changes have supporting documentation and are included in the Change Management Process. Going forward, Systems will be implementing Microsoft DevOps which will automate this verification step. In addition, Systems is implementing ServiceNow, which will standardize the management of changes to all production hardware, software, and infrastructure.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Finalize a complete mobile device inventory	Recommendation # 3a 3b - Create a Current Mobile Device Master Listing	Management agrees with the recommendations and plans to complete implementation by December 31, 2020. The Systems Division plans to continue maintaining the mobile device master listing outside of Great Plains to ensure appropriate recording of device information such as inactive, vacant, and test statuses. However, Systems will work with Administrative Services to ensure changes to the master listing are timely updated in Great Plains by Administrative Services.	12/31/2020 5/31/2021 **Approved 2nd Extension Requested 3/31/2022**	**ON TRACK _** **Approved 2nd Extension Requested** In September 2021, Internal Audit met with the Executive Office, Systems, and Admin Services to discuss these recommendations and related outstanding inventory policy. All parties agreed to a third extension to develop the outstanding inventory policy and related standards & procedures. Milestones have been developed.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	Medium	Register all LACERA issued mobile devices to the mobile device management (MDM) tools	Recommendation # 4 - Register all LACERA issued mobile devices to the mobile device management (MDM) tools	Management agrees with the recommendation and plans to complete implementation by October 31, 2020. Systems Division management will work with the Executive Office to define the appropriate organizational MDM registration policy for all devices including spare or test devices.	12/31/2020 5/31/2021 **Approved 2nd Extension Requested 3/31/2022**	**ON TRACK _** **Approved 2nd Extension Requested** In September 2021, Internal Audit met with the Executive Office, Systems, and Admin Services to discuss these recommendations and related outstanding inventory policy. All parties agreed to a third extension to develop the outstanding inventory policy and related standards & procedures. Milestones have been developed.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	Medium	Define organizational baseline mobile device management (MDM) usage and security configurations	Recommendation # 5a 5b - Define organizational baseline mobile device management (MDM) usage and security configurations	Management agrees with these recommendations and plans to complete implementation by October 31, 2020. The Systems Division evaluates security considerations in all implementation decisions and will work with the Executive Office to ensure appropriate operations objectives are met during this process.	12/31/2020 5/31/2021 **Approved 2nd Extension Requested 3/31/2022**	**ON TRACK _** **Approved 2nd Extension Requested** In September 2021, Internal Audit met with the Executive Office, Systems, and Admin Services to discuss these recommendations and related outstanding inventory policy. All parties agreed to a third extension to develop the outstanding inventory policy and related standards & procedures. Milestones have been developed.

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Define a mobile device equipment standard that documents the business purpose by classification of recipients and a separate procedure for test devices	Recommendation # 6a 6b - Define the Mobile Device Issuance Standards for Staff, Trustees, and Test Mobile Devices	Management agrees with the recommendations and plans to complete implementation by October 31, 2020. The Systems Division will work with the Executive Office to define the mobile device issuance standards for staff, trustees, and test mobile devices.	12/31/2020 5/31/2021 **Approved 2nd Extension Requested 3/31/2022**	**ON TRACK _** **Approved 2nd Extension Requested** In September 2021, Internal Audit met with the Executive Office, Systems, and Admin Services to discuss these recommendations and related outstanding inventory policy. All parties agreed to a third extension to develop the outstanding inventory policy and related standards & procedures. Milestones have been developed.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Improve administration over mobile device acknowledgement and usage forms	Recommendation # 7 - Improve Administration Over Mobile Device Acknowledgement and Usage Forms	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	12/31/2020 5/31/2021 **Approved 2nd Extension Requested 3/31/2022**	**ON TRACK _** **Approved 2nd Extension Requested** In September 2021, Internal Audit met with the Executive Office, Systems, and Admin Services to discuss these recommendations and related outstanding inventory policy. All parties agreed to a third extension to develop the outstanding inventory policy and related standards & procedures. Milestones have been developed.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Strengthen mobile device deactivation, reassignment and disposal procedures	9. Systems Division management should develop a formal procedure approved by the Executive Office over the deactivation, reassignment, disposal and/or sale of mobile devices taken out of service. Additionally, this procedure should include the following: a. A timeframe and methodology for the disposal of devices. b. Formal documentation to validate that old, obsolete devices are appropriately reset to factory settings and wiped with a copy provided to the end user and Administrative Services. c. An accurate inventory of out of service devices is maintained.	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	12/31/2020 5/31/2021 **Approved 2nd Extension Requested 3/31/2022**	**ON TRACK _** **Approved 2nd Extension Requested** In September 2021, Internal Audit met with the Executive Office, Systems, and Admin Services to discuss these recommendations and related outstanding inventory policy. All parties agreed to a third extension to develop the outstanding inventory policy and related standards & procedures. Milestones have been developed.

RECOMMENDATION FOLLOW-UP REPORT AS OF SEPTEMBER 30, 2021						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	Medium	Strengthen administrative controls over restricting universal serial bus (USB) enabled workstations	10. Systems Division management strengthen the process for managing workstations that have USB access enabled. The process should include: a. A periodic review of USB enabled workstations to ensure such access is still appropriate. b. A periodic reconciliation of the deny USB access listing against Administrative Services Fixed Asset Register. c. Encryption required for USB devices connected to LACERA workstations.	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	12/31/2020 5/31/2021 **Approved 2nd Extension Requested 3/31/2022**	**ON TRACK _** **Approved 2nd Extension Requested** In September 2021, Internal Audit met with the Executive Office, Systems, and Admin Services to discuss these recommendations and related outstanding inventory policy. All parties agreed to a third extension to develop the outstanding inventory policy and related standards & procedures. Milestones have been developed.

LACERA

October 13, 2021

TO: 2021 Audit Committee
                Joseph Kelly, Chair
                Shawn Kehoe, Vice Chair
                Vivian H. Gray, Secretary
                Alan Bernstein
                Keith Knox
                Ronald Okum
                Gina V. Sanchez

                Audit Committee Consultant
                Robert H. Griffin

FROM: Richard P. Bendall
                Chief Audit Executive

                Christina Logan
                Principal Internal Auditor

                Gabriel Tafoya
                Senior Internal Auditor

FOR**:**   October 21, 2021 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up for Sensitive Information Technology Areas**

BACKGROUND
As of August 2020, Internal Audit began to report to the Audit Committee a summary of recommendations being monitored related to system and network security audits and assessments. There are currently five sensitive information technology (IT) engagements, detailed on Table1, that Internal Audit has been monitoring.

CONSOLIDATION
During our monthly reviews with the Systems Division and the Information Security Office (ISO), we noted that several recommendations overlapped or were repetitive. To manage these outstanding recommendations more efficiently, in January 2021, Internal Audit, the Systems Division, and the Information Security Office worked together to consolidate overlapping and/or repetitive recommendations into a singular recommendation.

SUMMARY OF OPEN RECOMMENDATIONS

Table 1: Recommendations Status – By Audit Engagement

Engagement Name Report Date Recommendation Status by Risk Level	Total Recos	Addressed During Prior Periods	Implemented July - Sept 2021	In Progress Sept 2021
PM SOC Readiness Assessment February 2020				
High	—	—	—	—
Medium	10	6	—	4
Low	—	—	—	—
Clear Skies Penetration Test and VeraCode Report March 2020				
High	1	1	—	—
Medium	25	2	13	10
Low	17	—	5	12
Tevora 2019 Penetration Test June 2019				
High	—	—	—	—
Medium	—	—	—	—
Low	5	3	—	2
Tevora 2018 Security Risk Assessment July 2018				
High	—	—	—	—
Medium	3	3	—	—
Low	6	2	—	4
Consolidated Recos January 2021				
High	2	2	—	—
Medium	2	1	—	1
Low	—	—	—	—
Totals	71	20	18	33

For recommendations which are listed as **In Progress**, Systems Division Management provided a summary of work to be performed and a timeline.

Recommendations which are listed as **Implemented During Period**, during the current period, Systems Division Management provided supporting documentation to substantiate their position, which Internal Audit reviewed and approved. Key recommendations implemented during this period include:

- Systems Division Management has addressed many of the medium and low-level Tevora and Clear Skies Penetration Test recommendations through the re-design of LACERA.com and the development life cycle for the member portal, that was completed as of July 31, 2021.

Recommendations which are listed as **Completed During Prior Periods**, were implemented during a prior period.

RECOMMENDATIONS CATEGORIZED

IT General Controls (ITGC) are the basic controls that can be applied to IT systems such as applications, operating systems, databases, and supporting IT infrastructure. The general objective for ITGC is to ensure the integrity of the data and processes that systems support. To provide additional insight into these sensitive recommendations, we categorized the recommendations from sensitive IT engagements into the following ITGC areas:

ITGC	Description of control
Data Backup and Recovery	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
Environmental	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
Information Security	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
Logical Access	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
Physical Security	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
System Development & Change Management	Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also, provide reasonable assurance that segregation of duties exist.
System Monitoring & Maintenance	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

Table 2: Recommendations Status – By IT General Control Areas *(description on page 4)*

	Total Recos	Completed During Prior Periods	Implemented During Period	In Progress Sept 2021
Data Back Up & Recovery	1	1	—	—
Environmental	—	—	—	—
Information Security	11	3	—	14
Logical Access	41	12	12	11
Physical Security	—	—	—	—
System Development & Change Management	2	—	—	2
System Monitoring & Maintenance	16	4	6	6
Total # Recos by Implementation Status	**71**	**20**	**18**	**33**

Staff will be available to address questions at the October 2021 Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

RPB:cl:gt

L/CERA

October 12, 2021

TO: 2021 Audit Committee
              Joseph Kelly, Chair
              Shawn R. Kehoe, Vice Chair
              Vivian H. Gray, Secretary
              Alan J. Bernstein
              Keith Knox
              Ronald A. Okum
              Gina V. Sanchez

        Audit Committee Consultant
              Robert H. Griffin

FROM: Richard P. Bendall
        Chief Audit Executive

        Christina Logan
        Principal Internal Auditor

FOR: October 21, 2021 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up - KPMG's External Quality Assessment (EQA) on Internal Audit's Recommendation Follow-Up Process**

At the February 2021 Audit Committee meeting, KPMG presented its report on the External Quality Assessment of Internal Audit's Recommendation Follow-Up process (Attachment A). The report included five observations and 14 related recommendations to improve Internal Audit's recommendation follow-up process.

As of October 2021, Internal Audit has addressed and implemented 12 of the 14 recommendations. We plan to address the remaining two recommendations during the next few months.

We will continue to provide the Committee with quarterly updates of our progress until all recommendations have been addressed.

Summary of KPMG Recommendations:

<u>Observation #1</u> Prior to July 2020, recommendations have been closed by Internal Audit (IA) without sufficient evidence or without sufficient retention of appropriate evidence, and risk of exposure could remain.	
a. Enhance new procedure to include: • Minimum testing requirements to be performed for IA to validate management's remediation. This should include guidelines for when a follow-up audit may be performed. Testing of operating effectiveness should be performed for all high-riskfindings at a minimum.	Completed Reported June 2021
• Detail of the type of evidence to be maintained, and either the length of time that records must be retained or a reference to LACERA's document retention policy. We recommend that sufficient evidence is maintained such that a third party couldreperform the validation test work.	Completed Reported June 2021
b. Evaluate implementing the TeamMate feature to enable management to directly upload evidence.	Completed See Status below
c. Assess high risk findings which have been previously closed and determine if areas have been re-audited since the date of closure. If not re-audited, evaluate to validate status is appropriate.	In Progress See Status below
<u>Observation #2</u> A perception that IA lacks independence may lead to the risk of reduced impact and respect for the reports and recommendations released by the Division.	
a. Roll-out a communication program that is presented to key stakeholders on an organization-wide basis to explain how IA maintains independence and explain IA's responsibilities and processes and management's role in those processes.	In Progress See Status below
b. Standardize and enhance recommendation follow-up procedures (as discussed infinding #1).	Completed Reported June 2021

c. Monitor and report Key Performance Indicators at the Audit Committee which track audits and findings by business unit and history of aged items by audit area.	Completed See Status below
d. Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set.	Completed See Status below
Observation #3 IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure un-remediated.	
a. Enhance the current procedures to be more directive about when status updates are required (e.g. each quarter if remediation is due in excess of six months, and monthly if less than six months); this can be based on risk level or other factors.	Completed Reported June 2021
b. Enhance the current procedures to be more directive about when status updates are required (e.g. each quarter if remediation is due in excess of six months, and monthly if less than six months); this can be based on risk level or other factors.	Completed Reported June 2021
c. Evaluate TeamMate's workflow functionality, to allow for notices to be emailed to recommendation owners and IA (not just IA), and allow for updates to be entered into the system by management, and reviewed by IA.	Completed See Status
Observation #4 IA does not have a process for extension of recommendation follow-up due dates.	
a. IA should define and implement a process that details the required approvals and circumstances in which extension is permitted. We recommend that due date extensions require the same approvals as the initial report issuance, up to and including the Audit Committee. There should also be limited circumstances in which extensions are permitted to maintain accountability from management to meet their commitments.	Completed Reported June 2021

Observation #5 A centralized tracking tool is not adequately used to manage IA recommendations and corresponding actions.	
a. Ensure that personnel utilizing TM have been appropriately trained on the approved process for standardized data entry into the system.	Completed Reported June 2021
b. Evaluate the new version of TM that will be implemented, to ensure any configuration is designed to meet the new needs of the process and include data cleansing and migration to allow for one system of record for reporting purposes going forwards.	Completed Reported June 2021
c. Establish clear system of record documentation to comply with LACERA's documentation policy. IA record retention is 10 years.	Completed Reported June 2021

STATUS OF IN PROGRESS AND RECENTLY COMPLETED RECOMMENDATIONS:

<u>**Observation #1**</u>
Prior to July 2020, recommendations have been closed by Internal Audit (IA) without sufficient evidence or without sufficient retention of appropriate evidence, and risk of exposure could remain.

Recommendations
b. Evaluate implementing the TeamMate feature to enable management to directly upload evidence.

> **Status: Completed**
> We have developed and provided training to the management team on a new more thorough recommendation process in March 2021 and would like to spend additional time refining the new process before introducing a new feature. We have evaluated the ease and functionality of having management directly upload into TeamMate, and at this time, we do not believe that will provide efficiencies for management or Internal Audit. We will re-evaluate this recommendation after the recommendation process has matured.

c. Assess high risk findings which have been previously closed and determine if areas have been re-audited since the date of closure. If not re-audited, evaluate to validate status is appropriate.

> **Status: In Progress**   **Revised Date: February 2022**
> As part of our risk assessment that we will perform in January – February 2022, we will assess previously closed findings to determine if these areas have since been re-audited or if follow-up audits are warranted in the upcoming fiscal years.

<u>**Observation #2**</u>
A perception that IA lacks independence may lead to the risk of reduced impact and respect for the reports and recommendations released by the Division.

Recommendation
a. Roll-out a communication program that is presented to key stakeholders on an organization-wide basis to explain how IA maintains independence and explain IA's responsibilities and processes and management's role in those processes.

> **Status: In Progress**   **Revised Date: February 2022**
> We are in the process of revising our intranet page which will include information about Internal Audit's role, responsibilities, and independence. After the intranet page is redesigned, we will present it during an upcoming Audit Committee, Management, and Brown Bag meeting.

c. Monitor and report Key Performance Indicators at the Audit Committee which track audits and findings by business unit and history of aged items by audit area.

>   **Status: Completed**
>   The report we provide to the Audit Committee already includes color coding to indicate recommendations by their due date / history of aged items by Division.

d. Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set (e.g. current gap in IT).

>   **Status: Completed**
>   We will add new staff as the opportunity to hire arises. In October 2021, all Internal Audit staff participated in a 16-hour course on Information Technology auditing by the Institute of Internal Auditors.

Observation #3

IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure un-remediated.

Recommendation

c. Evaluate TeamMate's workflow functionality, to allow for notices to be emailed to recommendation owners and IA (not just IA), and allow for updates to be entered into the system by management, and reviewed by IA.

>   **Status: Completed**
>   We have developed and provided training to the management team on a new more thorough recommendation process in March 2021 and would like to spend additional time refining the new process before introducing a new feature. We have evaluated the ease and functionality of having management directly upload into TeamMate, and at this time, we do not believe that will provide efficiencies for management or Internal Audit. We will re-evaluate this recommendation after the recommendation process has matured.

Attachment A: KPMG's EQA of Internal Audit's Recommendation Follow-Up Process

RPB:cl

KPMG

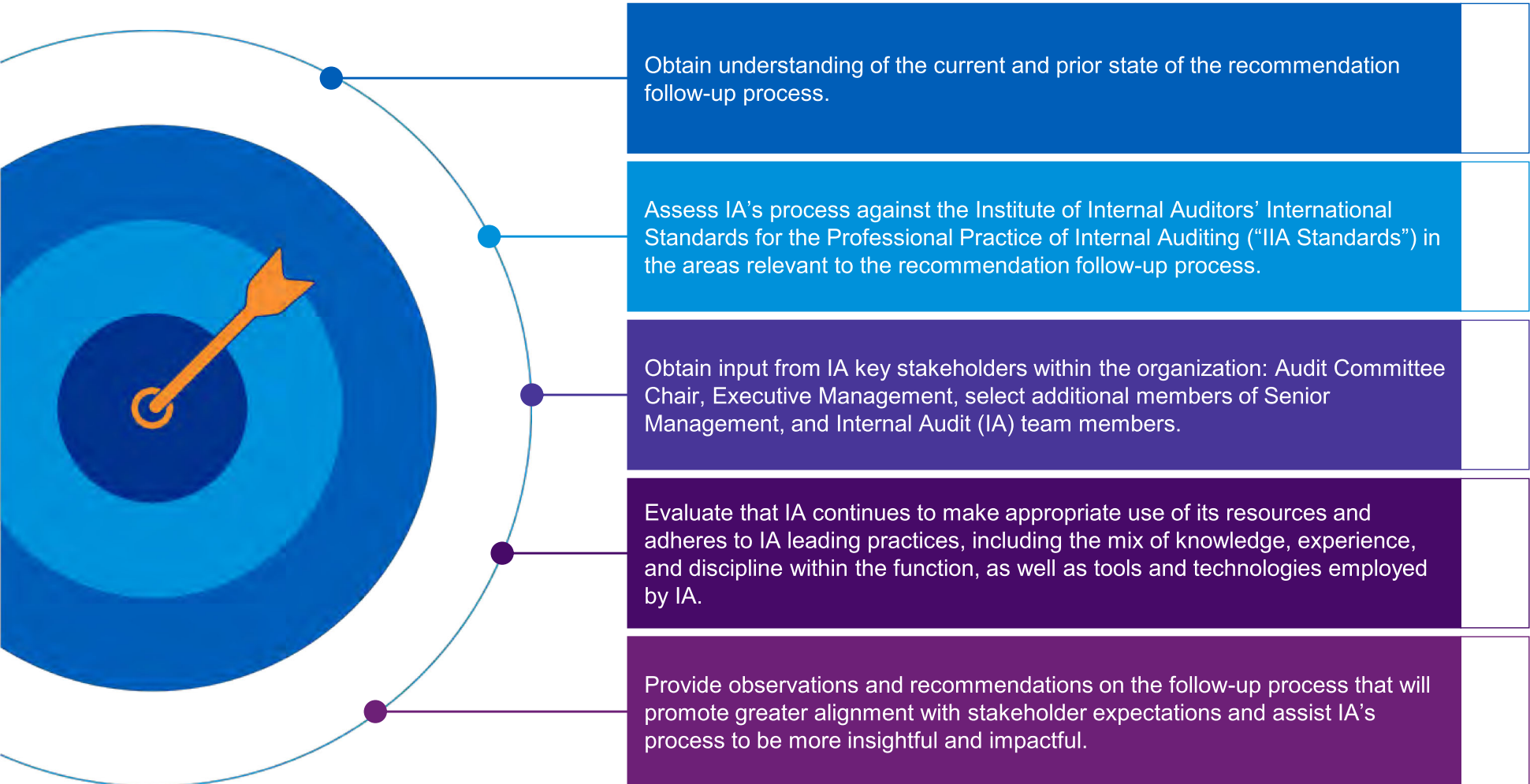# Los Angeles County Employee Retirement Association (LACERA)

External Quality Assessment (EQA) of Internal Audit's Recommendation Follow-up Process

December 31, 2020

Objectives

KPMG's assessment of LACERA's Internal Audit Recommendation Follow-up process focused on the following:

Obtain understanding of the current and prior state of the recommendation follow-up process.

Assess IA's process against the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing ("IIA Standards") in the areas relevant to the recommendation follow-up process.

Obtain input from IA key stakeholders within the organization: Audit Committee Chair, Executive Management, select additional members of Senior Management, and Internal Audit (IA) team members.

Evaluate that IA continues to make appropriate use of its resources and adheres to IA leading practices, including the mix of knowledge, experience, and discipline within the function, as well as tools and technologies employed by IA.

Provide observations and recommendations on the follow-up process that will promote greater alignment with stakeholder expectations and assist IA's process to be more insightful and impactful.

Background and Scope

Background

LACERA's recommendation follow-up process has gone through two evolutions during the period of 2014 – 2020. Prior to July 2020, LACERA's Internal Audit (IA) program did not have documented or consistently implemented procedures regarding how to appropriately manage and follow-up on recommendations issued to management as a result of findings identified during internal audits.

There were contributing factors to the inconsistency in process and aged audit findings during the period under audit, 2014 – 2020. The Chief Audit Executive (CAE) was on medical leave from December 2017 – October 2018. In addition, throughout the period, key stakeholders interviewed noted that LACERA's organizational culture posed a compliance obstacle to management acting on remediation items, particularly where the remediation required collaboration and support of the IT organization.

In March 2019, the Internal Audit function enhanced Audit Committee reporting regarding outstanding audit findings to include a color coding system to better identify recommendation status, management responses and separate reporting for each recommendation. Per inquiry with the CAE, the enhancements to the reporting were adopted by Internal Audit to highlight the problem surrounding the aged audit findings. The additional detail provided in these reports better equipped the Audit Committee and senior management to hold management accountable for their agreed remediation actions.

In November 2019, we understand that the Internal Audit function initiated a Quality Assurance Improvement Program (QAIP), which identified potential enhancements to the recommendation follow-up process and began to re-design and document the process. This led to a retroactive review of the remediation of audit findings from 2017 – 2019 (which was completed in 2020, during our review), establishment of a formalized recommendation follow-up process in July 2020, and more detailed review by the CAE of remediation on a finding basis, which was previously conducted at a higher level.

During the period of October 2018 – July 2020, while IA was undergoing efforts to enhance the recommendation follow-up process, the process was not formally documented to facilitate compliance and consistency. This led to minimum observable improvement from the pre-2018 process, with the exception of the enhanced Audit Committee reporting and reported reduction in longstanding open remediation items. No standard process or detailed oversight was in place; the recommendation follow-up process was open to auditor discretion.

In July 2020, the enhanced recommendation follow-up process was formalized, providing high level guidance from finding identification through finding remediation, establishing standards such as: the appropriate timeline for management to remediate a finding for each respective risk level, auditor's responsibility to follow-up and manage the recommendation's status throughout remediation, and high-level requirements to close a recommendation. These changes were first reflected in the June 2020 recommendation follow-up report to the Audit Committee. As part of our scope, we have reviewed the new procedures and identified opportunities for further enhancements which are detailed in this report. We were also able to review the remediation validation process by IA under the new process for 3 findings closed since July 2020, and noted no exceptions.
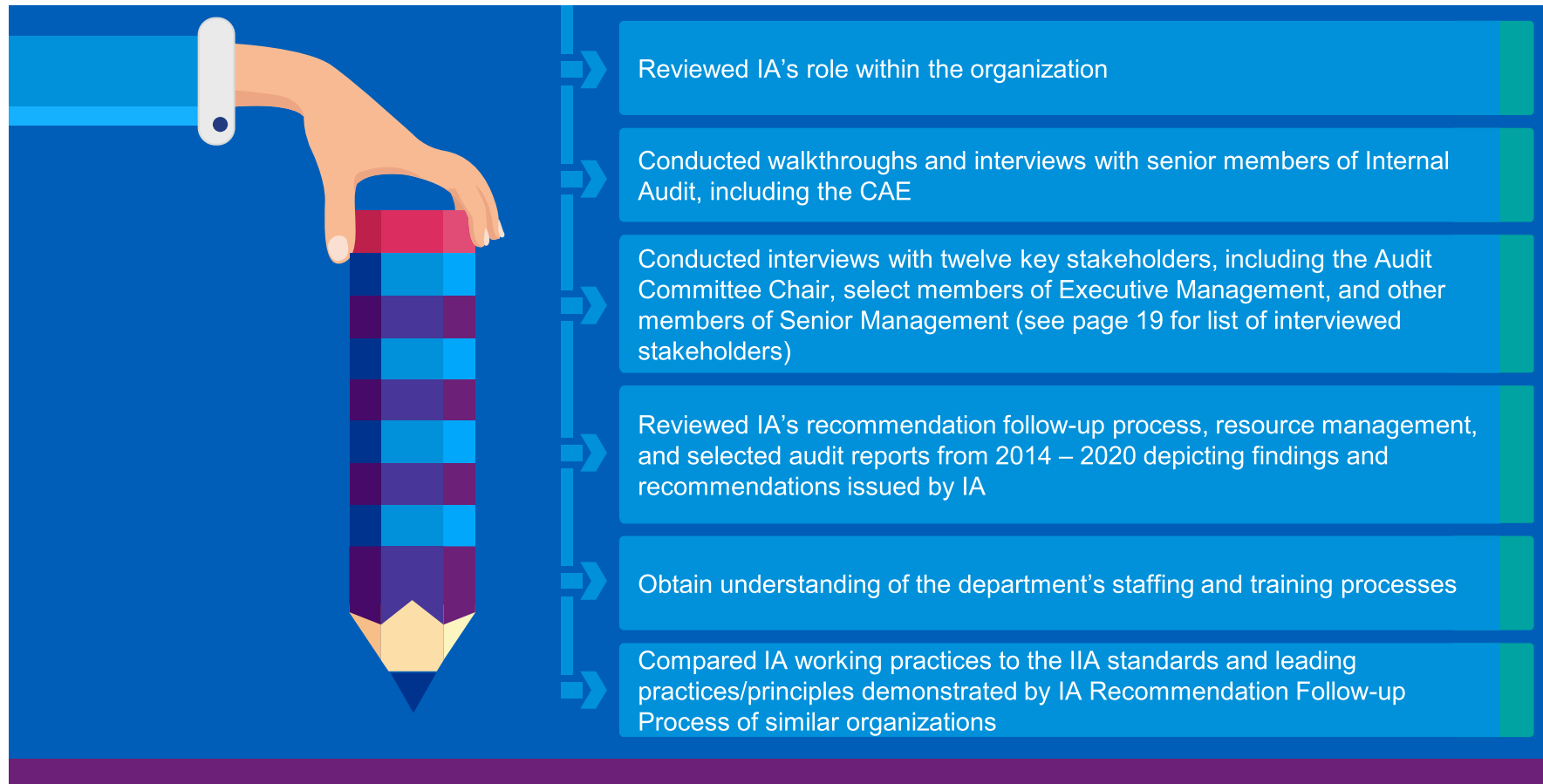
Background and Scope (continued)

Scope

The scope was to perform an assessment of the recommendation follow-up process for the period of 2014 – 2020 against the Institute of Internal Auditors' (IIA) Standards and leading practices, including the completeness and accuracy of Internal Audit's tracking and reporting of open audit findings.

The recommendation follow-up process is defined as the procedures performed after the recommendation has been agreed to by management and reported to the Audit Committee. The process includes regular follow-ups with process owners, validation testing of the remediation after completion of management's agreed actions, and status reporting to the Audit Committee.

Approach

KPMG's approach considered the three aspects of IA's Recommendation Follow-up Processes – position, people, and process. KPMG's approach included the following steps:

Reviewed IA's role within the organization

Conducted walkthroughs and interviews with senior members of Internal Audit, including the CAE

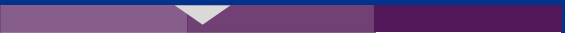Conducted interviews with twelve key stakeholders, including the Audit Committee Chair, select members of Executive Management, and other members of Senior Management (see page 19 for list of interviewed stakeholders)

Reviewed IA's recommendation follow-up process, resource management, and selected audit reports from 2014 – 2020 depicting findings and recommendations issued by IA

Obtain understanding of the department's staffing and training processes

Compared IA working practices to the IIA standards and leading practices/principles demonstrated by IA Recommendation Follow-up Process of similar organizations

Executive summary

LACERA's Internal Audit Recommendation Follow-up Process function **partially conforms as of July 2020** with the IIA Standards promulgated by the Institute of Internal Auditors.[see page 7 for definition of ratings]		
Position	**Process**	**People**
The current Executive Management and the Audit Committee Chair have placed renewed emphasis on the importance of the remediation of IA findings, which has led to increased accountability for management to address issues raised by the IA team on a timely basis.	Internal Audit's recommendation follow-up process was not effective prior to July 2020, with no formalized process and an inconsistent approach to IA's validation testing and recording of evidence to support validation (see page 3 for a description of IA's improvement activities ongoing from 2017 – 2020). Prior to 2020, there were a significant number of aged audit findings which were past their due date, with a lack of adequately detailed reporting of status to the Audit Committee.	Internal Audit is generally viewed as competent across the organization but has a perception of lacking independence[2]. The perception challenge was noted through our stakeholder interviews; however, no evidence of a lack of independence was noted through our detailed testing. Management should develop a plan to address independence perceptions via transparent communication and enhanced processes, including documentation retention to allow for increased transparency, and key performance metrics which are tracked and reported to the Audit Committee.
However, Internal Audit (IA) is not well established as a consistently strong agent of change[1]. While IA is not solely responsible for ensuring management's actions are appropriately completed, IA could increase its value and impact to the organization by continuing to work with management and ensuring they're held accountable to their agreed management actions. Increasing accountability for management includes, monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions, including executive sign-off.	IA's new process, established in July 2020, provides a framework for recommendation follow-up which should be consistently followed, with some areas of opportunity for enhancement highlighted in this report.	Third parties are utilized to support IA when specialized skills are considered necessary. IA should continue to focus on ensuring that the in-house team has the necessary skill set to conduct remediation follow-up or to re-hire the consultant to do so.
Developing | Mature | Leading	Developing | Mature | Leading	Developing | Mature | Leading
Position	Process	People

[1]Agents of Change: Internal Auditors who promote and enable change to happen within the Recommendation Follow-up Process. Assumes responsibility for promoting the value of the transformation that is being undertaken by LACERA; guiding and/or supporting others through the transformation to mitigate the identified risk, while maintaining appropriate independence; and ensuring that the new processes, procedures, structures, etc., are implemented in ways that deliver the expected value that the organizational change was to produce.

[2]The Internal audit team must be independent in fact and appearance, and internal auditors must be objective in performing their work. Work should be performed in an independent and unbiased approach, and evidenced in this manner to support the independence objective.

Conformance with IIA Standards

Rating	Number	Standard
☐	**1100**	**Independence and Objectivity**
☐	1110	Organizational Independence
☐	1111	Direct Interaction with the Board
☐	1120	Individual Objectivity
☐	1130	Impairment to Independence or Objectivity
☐	**2500**	**Monitoring Progress**
Key	**Rating**	
☐	Generally conforms	
☐	Partially conforms	
☐	Does not conform	
N/A	Standard was not applicable to Corporate Audit or instance did not arise.	

In the lexicon of the *IIA Standards*, "generally conforms" means that internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *IIA Standards*. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the *IIA Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Conclusion – LACERA IA's Recommendation Follow-up process partially conforms (middle possible rating) with the *IIA Standards* promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.

IIA Standard definitions

The following definitions are from the IIA's International Standards for the Professional Practice of Internal Auditing (Standards – *effective January 2017*).

— **1100 – Independence and Objectivity**

- The internal audit activity[2] must be independent, and internal auditors must be objective in performing their work.

— *Independence is the freedom from conditions that threaten the ability of the internal audit activity[2] to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity[2], the chief audit executive has direct and unrestricted access to senior management and the board[1].*

— *Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

— **1110 – Organizational Independence**

- The chief audit executive must report to a level within the organization that allows the internal audit activity[2] to fulfill its responsibilities. The chief audit executive must confirm to the board[1], at least annually, the organizational independence of the internal audit activity.[2]

— *Organizational independence is effectively achieved when the chief audit executive reports functionally to the board[1].*

— **1111 – Direct Interaction with the Board[1]**

- The chief audit executive must communicate and interact directly with the board[1]

— **1120 – Individual Objectivity**

- Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest

— *Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity[2], and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.*

IIA Standard definitions (continued)

— **1130 – Impairment to Independence or Objectivity**

- If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

— *Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.*

— **2500 – Monitoring Progress**

- The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

1) The referenced role of the Board is usually carried out by the Audit Committee, an operating committee of the Board charged with oversight of risk management and the company's system of internal controls and compliance with laws and regulations.

2) The internal audit activity assessed for the purposes of this review is the recommendation follow-up process.

Strengths and opportunities

Position

Key strengths

— **Management Support** – In 2020, Executive Management support for IA's recommendation follow-up process has increased within the organization. Management is visibly supporting IA in holding management accountable for agreed upon remediation actions in Audit Committee meetings which is an appropriate and necessary role which can be maintained while still allowing IA to remain independent. This improvement was noted within Audit Committee meetings and report format and has lead to an increased number of recommendations being addressed. We recommend that the level of support and focus from the Executive Management and the Audit Committee for IA's reports and findings continue, as this is key to IA being able to drive change. While management actions which go past their due date are sometimes unavoidable, these should be rare and supported by valid business reasons.

Key opportunities

— **Not a Consistently Strong Agent of Change** – IA is currently not consistently viewed, by interviewed stakeholders, as having the ability to address, execute, and drive change. IA should continue to focus on consistency in recommendation format and details, along with increasing accountability for management. This includes monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions including executive sign-off.

It is important to note that IA can only function within the overall culture of an organization, and that prior to 2020, management has not prioritized acting on their agreed remediation actions, nor been held accountable. Based on interviews with key stakeholders, management's remediation efforts appear to have been particularly challenging where remediation has depended upon collaboration with the IT function, which is also noted to have significantly improved in 2020. Our review did not include an assessment of overall organizational culture. Nor did it include a review of LACERA's governing body or operational management's role in risk management (the first and second lines within the IIA's Three Lines Model). There is an opportunity for LACERA to further assess each of these areas.

Strengths and opportunities (continued)

People

Key strengths

— **Perception of competence** – Throughout the organization, key stakeholders perceive IA to be generally competent in their responsibilities, with the level of competence perceived to have been on an upward trend in recent years.

— **IA as a consultative partner** – When management is in need of assistance, IA successfully acts as a consultative partner rather than part of management, performing management activities. IA is careful not to overstep when management is formulating responses to findings. Independence appears to be adhered to in this regard.

Key opportunities

— **Perception of lack of independence** – Most stakeholders interviewed have a perception that IA is not consistently independent. However, we did not identify evidence of a lack of independence during the detailed review of follow-up procedures we performed.

The perception of a lack of independence creates a concern of favoritism whilst conducting audits and areas that potentially receive less audits or scrutiny during an audit. The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review.

IA has a well tenured team, which has advantages of extensive business knowledge, but brings the disadvantage of the risk of potential independence conflicts due to past and present relationships, both in fact and appearance. Opportunities to mitigate are strengthening communication, transparency and IA accountability as well as adding new team members when possible and appropriate.

Strengths and opportunities (continued)

Process

Key strengths

— **New process** – Since IA's creation of an official recommendation follow-up process in July 2020, recommendations have been consistently undergoing the established process throughout their life cycle. The recommendations created using the new policy have resulted in greater success regarding the implementation life-cycle. Due to the date of establishment, there is a limited population of recommendations which have followed this process for our review to assess its overall sustainability.

— **Report format** – Since March 2019, IA has been modifying and enhancing the Audit Committee report to the Audit Committee so that recommendations are more descriptive, and include risk level, time outstanding (by year), and current status. The report assists in ensuring that recommendations that have been long outstanding (and are high risk) are visible to the Audit Committee. Key updates occurred in March 2019 and June 2020.

— **Recommendations formed appropriately –** IA successfully formed most recommendations to adhere to the criteria of specific, measurable, achievable, and timely per the recommendation follow-up process during the seven years reviewed.

Key opportunities

— **Improve timeliness of remediation follow-up –** Prior to 2020, recommendations have remained open for extended periods of time beyond the established due date, without appropriate, or in some cases, any follow-up. Recommendation follow-up has appeared to be rushed and only performed at reporting deadlines for the Audit Committee. This process has improved since the implementation of the new recommendation follow-up process in July 2020, we recommend that IA continue to consistently follow this new process.

— **Improve consistency in data** – Of the recommendations tested within this review, a significant number had data inconsistencies between recommendation follow-up logs, the reported status to the Audit Committee, and TeamMate. These included inconsistencies in: remediation date, status, closed/implemented date, etc. IA should ensure that all team members are appropriately trained on TeamMate and the data rules used for recording to promote standardization of data within the follow-up process.

— **Improve evidence retention for closure support** – IA failed to upload, maintain, and collect sufficient evidence to support the closure of recommendations. There were several instances in which evidence provided was inappropriate (email from recommendation owner) or non-existent. Opportunities to enhance the July 2020 process have been highlighted in our observations to drive consistency and rigor in the validation of remediation activities and maintenance of appropriate audit evidence.

— **Enhance use of tool (TeamMate)** – IA's leverage of TeamMate is not to a sufficient level to improve and enhance IA processes. There are also multiple versions of Teammate in use, which do not reconcile. Workflow and reporting functionality are not utilized.

— **Define process for due date extensions** – IA should define process for approved extensions to the recommendation remediation due date. This should include required approvals and circumstances of acceptable use cases.

Observations, Recommendations, and Management Response

Observation	Recommendation	Management action plan

1. Prior to July 2020, recommendations have been closed by IA without sufficient evidence or without sufficient retention of appropriate evidence, and risk exposure could remain:
 	
Until July 2020, IA did not have a formalized process that defined the recommendation follow-up procedures. Each auditor could follow personal approaches to the process, with no standardization or oversight, which has resulted in inadequate validation activities and evidence maintained. Of the 72 closed samples we reviewed from 2014 - 2020, we found that 41 were closed either without sufficient evidence, or without the sufficient retention of appropriate evidence. (33 were pre 2018, 8 in 2018 – June 2020).
 	
As we were unable to review the supporting evidence, we cannot conclude if the recommendations were appropriately closed.
 	
In July 2020, a procedure was enacted to establish a standardized process. However there is still opportunity for enhancement, specifically around the requirements for validation testing and required evidence to be maintained. We reviewed the evidence and IA validation of the three recommendations closed since the new procedures was put in place in July, with no exceptions being noted.
	Risk Rating: High
	
	Recommendation:
	
	a) Enhance new procedure to include:
	   i. minimum testing requirements to be performed for IA to validate management's remediation. This should include guidelines for when a follow-up audit may be performed. Testing of operating effectiveness should be performed for all high risk findings at a minimum.
	   ii. detail on the type of evidence to be maintained, and either the length of time that records must be retained or a reference to LACERA's document retention policy. We recommend that sufficient evidence is maintained such that a third party could reperform the validation testwork.
	
	b) Evaluate implementing the TeamMate feature to enable management to directly upload evidence.
	
	c) Assess high risk findings which have been previously closed, and determine if areas has been re-audited since the date of closure. If not re-audited, evaluate to validate status is appropriate.
		Executive Office Response:
		
		The Executive Office will discuss these observations and recommendations with the Chief Audit Executive and the Audit Committee, in its oversight and evaluation role, and implement changes as agreed with the Committee, while maintaining appropriate separation of audit and operational responsibilities.
		
		Internal Audit Response:
		
		Internal Audit Management agrees with the recommendations and will incorporate changes to our documented recommendation follow-up procedures to make sure these are all addressed along with any further direction by the Audit Committee.
		
		Due Date: March 31, 2021

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
2. A perception that IA lacks independence may lead to the risk of reduced impact and respect for the reports and recommendations released by the Division: IA is required to be independent in both fact and appearance. We did not identify any factual evidence of a lack of independence through our detailed review of follow-up procedures. However, most stakeholders interviewed indicated a concern over IA's independence, raising a question over the perception or appearance of IA's independence within the organization. The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review. Some areas, such as IT, are perceived to have not been audited as heavily or as frequently as others, with more leniency and negotiation around audit findings raised, and lack of follow-up performed. While IA is required to be independent, it must operate within the overall organizational culture, which has not been in-scope for our review. However, some interviewees commented on concerns about the impact of organizational culture and governance on IA's past efficacy. We suggest that consideration be given to an evaluation of LACERA's overall governance structure. The existing IA team members are well-tenured, which can contribute to the challenge of maintaining independence when IA is an in-house department, due to the formation of relationships, and perception thereof.	**Risk Rating:** High **Recommendation:** IA should: a) Roll-out a communication program that is presented to key stakeholders on an organization-wide basis to explain how IA maintains independence and explain IA's responsibilities and processes and management's role in those processes. b) Standardize and enhance recommendation follow-up procedures (as discussed in finding #1). c) Monitor and report Key Performance Indicators at the Audit Committee which track audits and findings by business unit, and history of aged items by audit area. d) Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set (e.g. current gap in IT)	**Executive Office Response:** Response to observation #1 incorporated in reference. In addition, on an organization –wide basis, the Executive Office will take steps with division managers and all staff to promote IA and its critical function and independent role in the organization, encourage cooperation with IA in its audits and prompt response to address IA recommendations, and use of IA as a consulting resource when appropriate. The Executive Office will support additional IA staffing resources as needed. **Internal Audit Response:** Internal Audit Management agrees with the recommendations and welcomes them to help address any perceptions that Internal Audit lacks independence. We have always maintained a strong mindset of independence and worked hard to avoid even the appearance of a lack of independence but recognize the need to better demonstrate our independence and ensure that we remain independent in fact and avoid or mitigate any perception of insufficient independence. Significant efforts have been made to implement recommendations b, c and d, but we will continue in those efforts. Due Date: April 31, 2021

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
3. IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure unremediated: IA does not include current progress of remediation of open findings within its reports to the Audit Committee, or include possible extended risk exposure for delayed recommendations. Escalation of "at risk" recommendations by IA allows Executive Management to take appropriate action to prioritize remediation or to accept the risk of a longer remediation timeline. Management needs to participate and provide appropriate and accurate information to Internal Audit for this process to be successful.	**Risk Rating:** High **Recommendation:** IA should: a) Enhance the current procedures to be more directive about when status updates are required (e.g. each quarter if remediation is due in excess of six months, and monthly if less than six months); this can be based on risk level or other factors. b) Enhance Audit Committee reporting to include a category of recommendations that are at risk of not being remediated by their due date. c) Evaluate TeamMate's workflow functionality, to allow for notices to be emailed to recommendation owners and IA (not just IA), and allow for updates to be entered into the system by management, and reviewed by IA.	**Executive Office Response:** Response to observation #1 incorporated by reference. **Internal Audit Response:** Internal Audit Management agrees with the recommendations and will incorporate them into our documented process and the role out of our new TeamMate Plus automated audit workpaper software. Due Date: March 31, 2021

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
4. IA does not have a process for extension of recommendation follow-up due dates: It was noted during review of the 112 recommendations from the selected audits that findings are not consistently remediated in a timely manner. Requests from management to extend remediation due dates have been a frequent occurrence, and there has not been a defined approach to request approval of this extension. Without appropriate transparency and approvals for due date extensions, the risk identified in the original audit remains unmitigated without conscious acceptance of the risk impact of the due date delay.	**Risk Rating:** High **Recommendation:** IA should define and implement a process that details the required approvals and circumstances in which extension is permitted. We recommend that due date extensions require the same approvals as the initial report issuance, up to and including the Audit Committee. There should also be limited circumstances in which extensions are permitted to maintain accountability from management to meet their commitments.	**Executive Office Response:** Response to observation #1 incorporated by reference. **Internal Audit Response:** Internal Audit Management agrees with the recommendation and has incorporated it into our documented recommendation follow-up procedures. Due Date: Complete per IA Management.

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
5. A centralized tracking tool is not adequately used to manage IA recommendations and corresponding corrective actions: IA does not adequately utilize TeamMate, which is the Internal Audit team's current Internal Audit management tool. There is inconsistent data entry, and lack of usage of TeamMate's workflow capabilities for tracking the remediation status of open findings. Both of these lead to the inability to use reporting from the tool, resulting in increased efforts to gather reporting, and risk of data inaccuracies. IA has a project in place to implement TeamMate+ to improve tool utilization. In addition, IA has two versions of the Teammate tool that are both used to track and maintain audit and recommendation follow-up documents. The systems are not linked and therefore need to be manually maintained. Currently, the systems are not in sync and do not reconcile to the reported recommendation audit log within the Audit Committee reports.	**Risk Rating:** Medium **Recommendation:** a) Ensure that personnel utilizing Teammate have been appropriately trained on the approved process for standardized data entry into the system. b) Evaluate the new version of Teammate that will be implemented, to ensure any configuration is designed to meet the new needs of the process, and include data cleansing and migration to allow for one system of record for reporting purposes going forwards. c) Establish clear system of record documentation to comply with LACERA's documentation policy. IA record retention is 10 years.	**Executive Office Response:** Response to observation #1 incorporated by reference. The Executive Office will take administrative steps to ensure that IA has necessary technology and training support. The Executive Office will also ensure that there is administrative support for appropriate document retention. **Internal Audit Response:** IA Management agrees with the recommendations. We have been in the process since July 2020 of evaluating and planning to acquire a significant upgrade to our automated audit software package, from TeamMate AM to TeamMate Plus. We have received Executive Office approval and expect to acquire and implement the new software beginning in January 2021. The implementation will include assistance from the vendor with the migration of data from the prior version as well as training for all Internal Audit staff. Due Date: March 31, 2021

Appendices

Appendix: Parties contributing to the EQA

Thank you for the opportunity to serve LACERA and the Internal Audit team. We appreciate the following individuals' support of the project and willingness to spend time providing feedback, documentation and examples:

Internal Audit personnel

— Richard Bendall (CAE)

— Leisha Collins (Principal Auditor)

— Christina Logan (Senior Internal Auditor)

Audit Committee/Board of Investments

— Gina Sanchez (Audit Committee Chair)

Company Management

— Santos Kreimann (CEO)

— Steven Rice (Chief Counsel)

— Bernardo Buenaflor (Benefits Division Manager)

— Jonathan Grabel (CIO)

— Ted Granger (Interim CFO)

— Dr. Arlene Owens (Interim CQA)

— Kathy Delino (Interim Information Systems Manager)

— Bonnie Nolley (Executive Board Assistant)

— Kimberly Hines (Administrative Services Manager)

— JJ Popowich (Assistant Executive Officer)

— Beulah Auten (retired CFO)

As provided in Section 1300 of the IIA Standards, this deliverable is prepared for the use of the CAE in support of the quality assurance program for IA. The quality assurance program should include periodic internal and external assessments as well as IA's ongoing monitoring to assist the CAE in his/her assessment of IA's conformity with the IIA Standards. This deliverable is intended solely for the information and use of management, LACERA's Audit Committee, and governing Board of Retirement and Board of Investments, and is not intended to be and should not be used by anyone other than these specified parties.

Observation ratings

Observation ratings (like audit ratings) are an important aspect of the independence of internal audit. Issues are generally rated at the end of fieldwork, after the audit team has had an opportunity to review the totality of findings from interim communications and associated management responses.

Our issue rating scale is as follows:

High Risk	The control gap or exceptions noted could have significant financial or operational consequences to the Company.
Medium Risk	The control gap or exceptions noted expose the Company to increased risk, but would not have significant financial or operational consequences to the Company.
Low Risk	Other items that are isolated and/or minor. Observations to improve financial and/or operational efficiency.

Conformance with IIA Standards

Rating	Number	Standard
N/A	**1000**	**Purpose, Authority, and Responsibility**
N/A	1010	Recognizing Mandatory Guidance in the Internal Audit Charter
■	**1100**	**Independence and Objectivity**
●	1110	Organizational Independence
●	1111	Direct Interaction with the Board
N/A	1112	CAE Roles Beyond Internal Auditing
■	1120	Individual Objectivity
■	1130	Impairment to Independence or Objectivity
N/A	**1200**	**Proficiency and Due Professional Care**
N/A	1210	Proficiency
N/A	1220	Due Professional Care
N/A	1230	Continuing Professional Development
N/A	**1300**	**Quality Assurance and Improvement Program**
N/A	1310	Requirements of the Quality Assurance & Improvement Program
N/A	1311	Internal Assessments
N/A	1312	External Assessments
N/A	1320	Reporting on the Quality Assurance and Improvement Program
N/A	1321	Use of "*Conforms with the [Standards]*"
N/A	1322	Disclosure of Nonconformance
N/A	**2000**	**Managing the Internal Audit Activity**
N/A	2010	Planning
N/A	2020	Communication and Approval
N/A	2030	Resource Management
N/A	2040	Policies and Procedures
N/A	2050	Coordination and Reliance
N/A	2060	Reporting to Senior Management and the Board
N/A	2070	External Service Provider and Organizational Responsibility for IA
N/A	**2100**	**Nature of Work**
N/A	2110	Governance

Rating	Number	Standard
N/A	2120	Risk Management
N/A	2130	Control
N/A	**2200**	**Engagement Planning**
N/A	2201	Planning Considerations
N/A	2210	Engagement Objectives
N/A	2220	Engagement Scope
N/A	2230	Engagement Resource Allocation
N/A	2240	Engagement Work Program
N/A	**2300**	**Performing the Engagement**
N/A	2310	Identifying Information
N/A	2320	Analysis and Evaluation
N/A	2330	Documenting Information
N/A	2340	Engagement Supervision
N/A	**2400**	**Communicating Results**
N/A	2410	Criteria for Communicating
N/A	2420	Quality of Communications
N/A	2421	Errors and Omissions
N/A	2430	Use of "Conducted in Conformance with the [Standards]"
N/A	2431	Engagement Disclosure of Nonconformance
N/A	2440	Disseminating Results
N/A	2450	Overall Opinions
■	**2500**	**Monitoring Progress**
N/A	**2600**	**Communicating the Acceptance of Risks**
Key	**Rating**	
●		Generally conforms
■		Partially conforms
❖		Does not conform
N/A		Standard was not applicable to Corporate Audit or instance did not arise.

Conclusion – LACERA IA's Recommendation Follow-up process partially conforms (middle possible rating) with the IIA Standards promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.

Lack of consistency in data examples

Date of Audit	Finding	Recommendation	Evidence	Audit Report Close Date	TeamMate Close Date
6/25/15	Information Management	Investments Office Management consider implementing a Customer Relationship Management (CRM) System to manage and maintain information related to LACERA's private equity partnerships. This system can potentially be used to manage information for other asset class managers also.	No evidence of implementation or IA's validation testing included in Teammate	This recommendation disappears from Audit Report. Last reported as "Pending" in 2018-07-18 agenda	4/30/2019
7/10/15	Retiree Health Care Contract with AON (And associated 3rd party vendors) - Contract with RGS	RHC should consider the results of their work in the recommendation above as well as refer to LACERA's Purchasing Policy to determine whether to establish a contract with RGS (including all necessary language for the protection of LACERA members data) or whether to initiate an RFP for healthcare printing and mailing associated with Aon; or alternatively to amend the contract with Aon to require them to contract with one of their preferred and vetted third party vendors for RHC's printing and mailing needs.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2016-07-20 agenda	7/6/2016
7/10/15	Expired Contract	The Communications Division should obtain a new contract with ZDI. The new contract should be on LACERA's form having had prior review by LACERA's Legal Office	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2015-12-03 agenda	12/17/2015
11/24/15	Need for Documented Procedures	Benefits Management should develop a documented process as well as standardized desk procedures and/or checklists for staff that process Returned Automatic Deposit Receipt (ADR) holds.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported in 2018-03-21 Report	Not Recorded
10/30/18	Testing Documentation	Systems Division management needs to instruct programming staff to attach all testing related documentation into the lifecycle application utility. This would facilitate post implementation review and provide greater assurance that changes to production have been tested and are functioning as intended.	No evidence of implementation or IA's validation testing included in Teammate	Not found in recommendation follow up log to Audit Committee	9/18/2020

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LACERA

October 13, 2021

TO: 2021 Audit Committee
           Joseph Kelly, Chair
           Shawn Kehoe, Vice Chair
           Vivian H. Gray, Secretary
           Alan Bernstein
           Keith Knox
           Ronald Okum
           Gina V. Sanchez

           Audit Committee Consultant
           Robert Griffin

FROM: Richard Bendall
           Chief Audit Executive

           Kathryn Ton
           Senior Internal Auditor

FOR**:**   October 21, 2021 Audit Committee Meeting

SUBJECT: **Ethics Hotline Status Report**

The purpose of this memorandum is to provide the Committee with information on ethics cases handled by LACERA. LACERA has contracted with NAVEX Global's EthicsPoint since November 2019 for its ethics hotline reporting and case management needs.

To date, LACERA has received six case reports, four of which have been closed and two of which are under investigation at this time.

Issue Type	Count	Status
Retaliation	1	In-progress
Harassment	1	In-progress
Accounting & Auditing Matters	1	Closed
Time Abuse	2	Closed
Violations of Policy	1	Closed

Staff will continue to provide updates to the Committee on future reports.

RB:kt

LACERA

October 13, 2021

TO: 2021 Audit Committee
            Joseph Kelly, Chair
            Shawn R. Kehoe, Vice Chair
            Vivian H. Gray, Secretary
            Alan J. Bernstein
            Keith Knox
            Ronald A. Okum
        Gina V. Sanchez

            Audit Committee Consultant
                Robert H. Griffin

FROM: Richard P. Bendall
            Chief Audit Executive

            Leisha E. Collins
            Principal Internal Auditor

FOR: October 21, 2021 Audit Committee Meeting

SUBJECT: **FYE 2022 Audit Plan Status Report**

BACKGROUND

According to the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing (Standards), the Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization.

To remain in compliance with the Standards, Internal Audit developed the FYE 2022 Audit Plan (Audit Plan) which was approved at the June 2021 Audit Committee meeting. The Audit Plan currently consists of 45 projects in the areas of assurance, consulting, advisory, and other Internal Audit activities. As of September 30, 2021, there are 34 projects in progress towards completion. Refer to the Audit Plan Status Report (Attachment A) for an updated status of all audits and projects. A brief description of each project is provided on (Attachment B).

Audits

Internal Audit has made deliberate efforts to enhance and refine the audit process, audit workpapers, and the audit reporting process which has required a significant amount of staff resources. When theseprocesses are fully developed and our metrics further refined, we expect to have a much more efficient and consistent audit process.

A summary of audits currently underway is provided in the following table:

Audit	Description of Project	Status
Accounts Payable Audit	Audit of accounts payables, payment vouchers, and ACH transactions for accuracy.	Audit field work in progress
Review of HR Recruiting & Hiring Processes	Comprehensive review of HR recruiting processes and practices to assess areas for improvement for talent management and filling vacancies timely. This audit will be performed by an external firm.	In planning phase, AC approval of firm at Oct 21 Meeting, estimated start in December 2021
Organizational Governance Review	High-level assessment of LACERA's maturity in key organizational governance areas which will be reported to the Audit Committee. This engagement will be combined with the Ethics and Value Review. This audit will be performed by an external firm.	Planning phase; in process of finalizing the audit objectives and bib memo
Employee Bonuses Audit	Audit of employee bonuses since management recently revised its process based on recommendations from the LA County's audit.	Audit field work in progress
Death Claims Processing Audit	Review Benefits process and procedures for processing member death benefit claims.	Preliminary field work in progress
Review of Executive Office Credit Card Purchases	Review of CEO Credit Card purchase for compliance with Credit Card Policy	Draft audit report in progress
Continuous Audit Program(CAP)	CAP is continuous audit testing for fraud and compliance incorporating data analytics as the primary auditing tool. Several CAP tests are underway and in various stages of completion	CAP testing is ongoing

Ongoing Projects

A significant amount of Internal Audit resources have been applied to ongoing and unplanned projects. The following projects reflects the work performed thus far during the current fiscal year:

Oversight of SOC- Type 2 Engagement

Plante Moran completed their SOC audit engagement of OPEB's system and operational controls to ensure design and operating effectiveness. Due to the complexity of this audit engagement, Internal Audit has overseen data requests, worked with key stakeholders to ensure delivery of data, coordinated meetings, interviews, and other logistics to ensure the project ran smoothly. Plante Moran will present to the Committee at the October 2021 Meeting.

Oversight of External Financial Audit

In October 2021, Plante Moran completed the financial audit for fiscal year ended June 30, 2021. Plante Moran will present the report to the Committee at the December 2021 Meeting. Due to the complexity of this audit, Internal Audit oversaw the engagement, which includes coordinating meetings, gathering support and other administrative tasks, and ensuring audit deadlines are met.

Fiduciary (Operational) Review Cross-functional Team

Internal Audit is leading a cross-functional working team to assess areas of risk for inclusion in future fiduciary/operational review(s).The cross-functional team includes representation from all divisions and the team reports periodically to LACERA's Senior Executive Team.

Oversight of External Audit Pool

During the prior fiscal year, Internal Audit issued a Request for Proposal (RFP) to hire a pool of external audit firms to perform auditing and consulting services. Seven firms were selected and approved by the Committee to participate in the Prequalified Audit Pool. This has been a very extensive project requiring staff resources for the oversight of the selection of firms for upcoming audits as well as planning and organizing the external audits.

Recommendation Follow-Up

Internal Audit enhanced procedures and incorporated standardized forms into the Recommendation Follow-Up Process. Staff continues to follow-up on the status of recommendations on a monthly basis, verifying implementation of recommendations and tracking progress.

I would like to thank the team for all their hard work and the Audit Committee for your continued support of Internal Audit.

RPB:lec

Attachment

Attachment A

FYE 2022 AUDIT PLAN STATUS REPORT (*As of 9/30/21*)

	Audit Projects	Service Type	Frequency	Audit Assignment	Estimated Internal Hours	Actual Hours	Variance
EXECUTIVE / LEGAL / ORGANIZATION							
1	Organizational Governance Review	Consulting	Annual	External	200	4	196
2	Organizational Ethics & Values Review	Consulting	Annual	External	100	15	85
3	Oversight of SOC-1 Type 2	Assurance	Annual	Internal	400	142	258
4	Business Continuity Plan / Disaster Recovery	Consulting	Periodic	Internal	150		150
5	Review of Prior Privacy Audit	Assurance	Periodic	Internal	200	1	199
6	Organizational Check Management Policy Review	Consulting	Periodic	Internal	300	1	299
7	Ethics Hotline & Investigations	Consulting	Annual	Internal	200	31	169
8	Audit of Board Vantage Security Settings	Assurance	Periodic	Internal	100		100
ADMINISTRATION - Admin Services, HR, Systems							
9	Continous Auditing Program	Assurance	Continuous	Internal	500	64	436
10	Recommendation Follow-Up	Assurance	Continuous	Internal	250	70	180
11	Procurement Audit	Assurance	Periodic	Internal	300	33	267
12	Review of HR's Recruiting & Hiring Processes	Consulting	Periodic	External	100	1	99
13	Employee Salary Bonuses Audit	Assurance	Periodic	Internal	150	139	11
14	Penetration & Social Engineering Audit	Assurance	Annual	External	100	27	73
15	Review of IT Policies	Advisory	Periodic	Internal	100		100
16	Cyber Security Incident Events Management (SIEM)	Assurance	Periodic	External	100	4	96
17	Privilege Access Audit	Assurance	Periodic	Internal	100		100
INVESTMENTS & FASD							
18	Oversight of THC RE Financial Audits	Assurance	Annual	Internal	100	40	60
19	Oversight of Real Estate Manager Reviews	Assurance	Annual	Internal	100	7	93
20	Oversight of Actuarial Services	Assurance	Annual	Internal	100	3	97
21	Oversight of Financial Audit	Assurance	Annual	Internal	450	155	295
22	Investments Due Diligence	Consulting	Periodic	External	150	37	113
23	THC Operations & Management Audit	Assurance	Periodic	External	100		100
24	Wire Transfers Audit	Assurance	Periodic	Internal	200		200
OPERATIONS - Benefits, DRS, RHC, Member Services, QA							
25	Continous Audit Program	Assurance	Continuous	Internal	500	175	325
26	Recommendation Follow-Up	Assurance	Continuous	Internal	100	92	8
27	LA County Rehired Retirees	Assurance	Annual	Internal	300	5	295
28	DLU's Death Claim Processing Audit	Assurance	Periodic	Internal	250	53	197
29	Required Minimum Distribution (RMD) Audit	Assurance	Periodic	Internal	200	172	28
30	Account Settlement Collections Audit	Assurance	Periodic	Internal	250		250
31	Member Communications Audit	Assurance	Periodic	External	150		150
32	Governance, Risk, & Compliance _ RHC	Assurance	Periodic	Internal	250		250
INTERNAL AUDIT							
33	Risk Assessment & Audit Planning	Assurance	Continuous	Internal	500	30	470
34	Quality Assurance Improvement Plan	Assurance	Continuous	Internal	280	9	271
35	Professional Development	-	Continuous	Internal	300	21	279
36	Audit Committee Support	Advisory	Continuous	Internal	500	163	337
37	KPMG Recommendation Follow-Up	Assurance	Periodic	Internal	200		200
38	External Quality Assessment	Assurance	Periodic	External	250	31	219
ADDITIONAL PROJECTS							
39	Macintosh Data Backup (Reco F/U review)	Consulting	Periodic	Internal	40		40
40	Participation in Info Sec Project	Consulting	Periodic	Internal	75	27	48
41	Fiduciary Review	Consulting	Periodic	Internal	120	150	-30
42	Audit Pool Planning & Oversight	Assurance	Continuous	Internal	125	176	-51
43	Account Payable	Assurance	Periodic	Internal	50	9	41
44	Teammate	-	Continuous	Internal	300	118	182
45	Review of Exec Office Credit Card	Assurance	Periodic	Internal	50	37	13
				TOTAL HOURS	**9340**	**2042**	**7298**

ATTACHMENT B

The following table provides a description of each audit area included in the FYE 2022 Audit Plan.

	Audit Projects	Description of Project
	EXECUTIVE / LEGAL / ORGANIZATION	
1	Organizational Governance Review	High-level assessment of LACERA's maturity in key organizational governance areas which will be reported to the Audit Committee.
2	Organizational Ethics & Values Review	High-level assessment of LACERA's maturity in key Ethics and governance areas. This engagement will be combined with the Organizational Governance Review.
3	Oversight of SOC-1 Type	Plante Moran (PM) will perform a SOC audit over the controls related to OPEB data. Due to complexity of this engagement, IA is project manager.
4	Business Continuity / DRP	Audit of BC plans to ensure they are complete, reviewed and approved, and staff has been trained on them. Participation in DR testing.
5	Review of Prior Privacy Audit	Follow-up on prior Privacy Audit recommendations to assess if changes have adequately addressed areas of concern from the audit.
6	Organizational Check Management Policy Review	Audit of the organizational-wide check management and processes to identify areas to strengthen controls and establish formal organizational procedures.
7	Ethics Hotline Investigation	Monitor and administer the Ethics Hotline. Provide AC summary of incidents.
8	Audit of Board Vantage Security	Audit access rights and credentials to Board Vantage System.
	ADMINISTRATION *(Admin, HR, Systems)*	
9	Continuous Auditing Program (CAP)	Automated testing of transactions and information systems. CAP provides continuous assurance in key areas of compliance and fraud detection.
10	Recommendation Follow-Up	Ongoing follow-up on the status of recommendations and reporting to Audit Committee.
11	Procurement Audit	This audit will focus on the workflow of the procurement process and organizational compliance with the policy.
12	Review of HR Recruiting & Hiring Practices	Comprehensive review of HR Recruiting processes and practices to assess areas for improvement for talent management and filling vacancies
13	Employee Salary Bonus Audit	Audit of employee bonuses since management recently revised its process based on recommendations from the LA County's audit.
14	Penetration Test & Social Engineering Audit	Evaluation of the information security of the network from an external perspective to determine any risks posed from an uncredentialed attacker.
15	Review of IT Policies	Review of the updates to IT Policy Manual implemented in prior year.
16	Cyber Security Incident Event Management (SIEM)	Review SIEM processes to ensure good practices exist for analyzing log-event data used to monitor threats and facilitate timely incident response.
17	Privilege Access Audit	Review the creation, monitoring, and maintenance of privileged access credentials for compliance with best practice guidelines.
	INVESTMENTS & FASD	
18	Oversight of THC RE Financial Audits	Internal Audit manages the relationship with the real estate external auditors who perform the real estate THC financial audits.
19	Oversight of Real Estate Manager Reviews	Internal Audit oversees external audit firms that conduct real estate manager contract compliance and operational reviews.
20	Oversight of Actuarial Services	Internal Audit manages the relationship with the Actuarial Consultant and Auditor for services relating to actuarial projects.
21	Oversight of Financial Audit	Internal Audit manages the relationship with LACERA's external financial auditors for the annual financial statement audit.
22	Investment Due Diligence	Consulting engagement to review the Investment Office due diligence operations.
23	THC Operations & Management Audit	Consulting engagement to review THC management and operations to identify areas to improve efficiency and effectiveness.
24	Wire Transfer Audit	Audit of operational updates and improvements to the wire transfer process; assess appropriateness of levels of review and approval.

	Audit Projects	Description of Project
	OPERATIONS	
25	Continuous Auditing Program (CAP) - Operations	CAP is testing transactions and information systems, provides continuous assurance in key areas of compliance; includes fraud detection audits.
26	Recommendation Follow-Up	Ongoing follow-up on the status of recommendations and reporting to Committee.
27	LA County Rehired Retirees	Audit of LA County's rehired retirees to ensure compliance with PEPRA.
28	DLU Death Claims Processing Audit	Review Benefits, Member Services, and Legal divisions' processes for tracking and processing member deaths and related continuances and claims.
29	Required Minimum Distribution Audit	Review of compliance with RMD requirements.
30	Account Settlement Collections Audit	Follow-up of management's progress in addressing areas of concern and deficiencies from the FY 2019 review and updates to procedures.
31	Member Communications Audit	Audit to assess the quality of communication and service provided to members from Member Services and Retirement Health Care Divisions.
32	Governance, Risk, and Controls_RHC	Assessment of RHC to gain a deeper understanding of its governance, risks, and controls.
	IA ADMINISTRATION PROJECTS	
33	Risk Assessment & Audit Planning	Updating Audit Universe, Risk Assessments, and develop Audit Plan.
34	Quality Assurance Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA's performance through internal assessments, client surveys, and communication of results to key stakeholders.
35	Professional Development	Annual self-assessment, developing self-development program, and allocating for 30 hours of annual training per staff.
36	Audit Committee Support	Preparation of Audit Committee materials and attendance at meetings.
37	KPMG Reco Follow-up	Internal Audit continues to implement action plans to address recommendations from KPMG Audit and provides periodical updates to Audit Committee.
38	External Quality Assessment	Working with an external independent reviewer for the required Quality Assessment Review.
	ADDITIONAL PROJECTS	
39	Macintosh Data Backup (Reco Review)	Review of updates made to the backup systems as a result of the recommendations from prior audit.
40	Participation in Info Sec Project	IA participates in the InfoSec project meetings.
41	Fiduciary Review	IA leads the cross-functional team assigned by the Exec office to develop the scope for future fiduciary review.
42	Audit Pool Planning & Oversight	Planning and coordination of audits conducted by external firms.
43	Accounts Payable	Completion of audit from prior fiscal year.
44	TeamMate	Planning and implementation of TeamMate tools for improved efficiency and effectiveness of audit work and reporting.
45	Review of Exec Office Credit Card	Review of CEO Credit Card purchase for compliance with Credit Card Policy

LA/CERA

Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101

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